Local Government Finance and the 2019 Spending Review Inquiry

Cornwall Council welcomes the opportunity to submit a response and contribute to this inquiry. We are hopeful that the 2019 Spending Review can address some of the issues detailed in our response. We are happy to contribute further by providing evidence in person to the committee. In summary the main points that we want to emphasise are:

- The decline in the quantum of funding for the local government sector has given rise to unprecedented budget cuts. In Cornwall, unitarisation and strong political leadership have made it possible to make the necessary savings. Cornwall Council has shown a commitment to innovative solutions by:
  - Ensuring good value for money
  - Our libraries partnerships – working with town and parish councils
  - Our leisure partnership with social enterprise GLL saved £3m and kept sports facilities open.

Local government has been creative and shown great resilience but you cannot take 60p out of every £1 of funding to the sector (as quoted by the LGA) without affecting local communities at a time of austerity.

The overall effect of these funding reductions has been to transfer the burden onto individuals as is evidenced by CIPFA (https://www.cipfa.org/policy-and-guidance/reports/performance-tracker-2018).

- Council Tax is a property tax and takes no account of an individual’s ability to pay the charge. When the ability to offer council tax support was devolved to local government, it arrived with a 10% cut in resource compared to the central Government budget, this left local councils with a resource pressure at the outset.

- We welcomed the Business Rates Retention Scheme and the fiscal decentralisation it represented but since that time it is disappointing that there has been no further decentralisation. The UK is one of the most centralised countries in the world, with only 5% of revenue raised locally compared to 13% in France and 50% in Canada. Cornwall Council has watched with interest as other areas in England have campaigned to raise a tourist tax. If Government does not increase the quantum of funding for the local government sector, Cornwall too will have to look more closely at other sources of income not previously considered.

- Government has failed to adequately fund social care through settlements to local government. There cannot continue to be a trend for sticking plaster solutions to a chronically underfunded sector. Local government need social care to be properly assessed and for adequate funding to be passed down within the base settlement and guaranteed for multiple years.

- Within the settlement formulae there is long standing urban bias. Government has made attempts to rectify this but after initial recognition we are now experiencing an urban backlash. There cannot continue to be urban bias in local government funding, rendering
public services a postcode lottery. Please see appendix 1 for some of our emerging policy thinking on this issue.

- With Brexit an imminent prospect, and uncertainty about the nature of the future relationship with the EU at an all-time high, it brings into focus the lack of new burdens funding for local government for new duties that they are forced to take on. This should be dealt with urgently so as not to impact further on local services post EU exit; but also the Spending Review should take into account any increase in responsibilities going forward as ‘need’ in the local government sector cannot be assessed without an understanding of the full scale of the scope of responsibility.

Please see below our responses to the individual questions posed by the inquiry.

1. 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.

   ![Graph: Movement in DEL: 2016/17 - 2019/20](image)

   **The quantum of local government funding**

   1.1 The graph above shows the extent of the decline in local government sector funding. Over the period of the current funding deal 2016/17 to 2019/20, local government funding has been cut by 24%. The cuts to the MHCLG department funding have been greater in magnitude than any other centrally funded department, leaving local authorities with drastic savings to make over a short period of time when costs are only rising.

   1.2 Local government provides an easy target for funding cuts in comparison to other departments that capture the media interest of the nation enough to provide a powerful motivation to the Government to protect budgets like health and education. Instead the cuts are felt by local service users when valuable services are withdrawn or reduced. Local councils are taking daily
criticism from the general public as a result of austerity measures imposed by the Government on the sector as a whole.

**Complexity**

1.3 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 a model where the calculation method and how different components relate to each other is transparent. Authorities want to see how their allocations have been calculated, and to be able to replicate these calculations. Expressing simply how funding allocations are calculated is really important.

1.4 Most of the complexity has been in the BRRS in recent years, including new reliefs and discounts, revaluation, pilots (of different types), the switch from RPI to CPI and various section 31 grants. It is inevitable that change will continue after 2020: the next revaluation is in 2022, new discounts and reliefs will be demanded by ailing business sectors, and it is likely that different retention rates will prevail in different authorities. We are very doubtful that the current system will cope with these changes any better in the future than it does now. The proposals for an alternative – or simplified – rates system should help.

**Under funding of rural authorities**

1.5 The current settlement funding assessment is not currently nor has it historically provided a fair assessment of the needs of rural authorities like Cornwall Council which has led to chronic underfunding. The specific pressures associated with the geography of a coastal and peripheral county, are not adequately taken into account and Cornwall Council welcomes the area cost adjustment proposals for sparsity and remoteness in the plans for the new assessment for local governments’ relative needs and resources formula. Cornwall Council has reservations that there is little detail currently on how the weighting will be applied and would push for the publication of the proposed methodology at the earliest opportunity.

**Timeliness of funding decisions/publication and certainty of forward funding levels**

1.6 In recent years, the multi-year settlement has been very useful as it has provided a baseline level of certainty; but it has been undermined to some degree by the late announcement of new funding and council tax limits. The early announcement of forward funding levels for local authorities is absolutely paramount to ensuring that they have security and assurance to make decisions which will optimise their resources accordingly. The lack of clarity about funding for local government after 2019/20 is unacceptable. The uncertainty and complexity have impacted on authorities’ confidence in their funding forecasts. As a result, authorities have tended to hold-back and not commit resources until they are sure. This does not represent the efficient use of scarce resources.

1.7 Ad hoc policy changes have undermined the effective operation of the funding system, particularly to the business rates system. We do, however, recognise that governments will 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 (e.g. council tax thresholds) and to do so by early autumn so that it fits in with local authority budget setting timetables.
Transition arrangements

1.8 We would call on the Government to carefully consider its policy on funding transition arrangements which in the past have included ‘damping’ of funding settlements. Although we recognise that transition arrangements are necessary to prevent unfeasible reductions in funding for local authorities who may lose out due to new funding drivers being implemented, we do not believe that this has been implemented fairly in the past. Cornwall Council has missed out on the benefit of £9 million of funding per year in previous years due to ‘damping’ being fixed into our funding settlement. We would call for transition arrangements to be phased out in a minimum number of years and should be set according to strict criteria with thresholds for maximum reductions in funding. Those authorities assessed as having an increased level of need relative to their current funding levels should receive an immediate uplift in order that service provision can reflect need at the earliest possible opportunity.

The burden on the local tax payer

1.9 The proposal of an intention to move towards a more transparent and simple funding formula is one that has been welcomed by Cornwall Council as per our response to the consultation on the Review of Local Authorities Relative Needs and Resources. We are hopeful that the 2019 Spending Review will address more of the fundamental issues with the overall sector spending allocation. The £8bn funding gap by 2025 for councils in England as predicted by the LGA is not a situation that can be remedied by continual council tax rises, especially when there is already such a stark disparity in Council Tax levels across England.

Adults and Children’s social services

1.10 Due to the cuts to funding over the current four year funding deal from 2016/17 to 2019/20, the savings that have been enforced on the areas of service provision to our most vulnerable residents in adult and children’s social services have totalled £44.5m in Cornwall Council alone. This high level of savings was necessary even though Cornwall Council has protected these budgets over other service areas. These budget cuts place huge pressures on the most important service areas and staff within them. This cannot continue into the next funding period and although we agree with the specific funding formulae for both adults and children’s social services, the overall sector allocation to local government needs to acknowledge the significant current and future pressures they are facing and build in adequate funding for certainty of social care provision in future years.

Incentive versus needs based funding

2.1 An increasing share of funding is now distributed based on incentives rather than “needs”. But incentive-based funding has an opportunity cost. It is not an efficient way of funding services because the additional risk encourages authorities into more tentative behaviour. There can be a reluctance to commit resources, with authorities holding-back resources on their balance sheets. It also means that funding is not systematically directed at authorities on the basis of “need”.

2.2 Any new taxation sources should be seen in this context (e.g. tourist tax or additional council tax bands). Whilst they increase the funding quantum for the sector (which is to be welcomed) they
will do so in a very uneven way. Some authorities will have enormous capacity to generate additional income both from existing sources and from new types of taxation. Others have very little opportunity (and indeed may have to invest just to manage the decline of their income streams).

2.3 The role, scope and operation of equalisation of income is going to become increasingly important going forward as this will create considerable amounts to redistribute based on “needs”.

2.4 There are two elements to the decision on equalisation:

1. **How often should income/taxation be equalised?** Until the early 2000s, council tax equalisation was undertaken annually (which effectively neutralised the benefit of council tax base growth). Equalisation has become increasingly periodic, with the effect that when equalisation does take place it is extremely redistributive and, as a result, destabilises the system. We would suggest that periodic equalisation is reasonable (every 4-5 years).

2. **How much growth or taxation should authorities be able to keep?** Any system has to allow authorities to keep some taxation gains for a period so that there is an “incentive effect”; authorities might also be using taxation-gain to support investment decisions or to fund the additional services or infrastructure arising from population growth.

**Short term focused financial system**

2.5 During the term of the current system of local government funding, as a result of the pressures that have arisen from the continual and significant cuts to the sector, Government has recognised this often late in the day and announced at short notice that extra funding will be rolled out to tackle very specific issues like winter road maintenance and adult social care provision. These funding streams are often one-off grants that provide short term relief to struggling authorities and although welcome at the time, are a symptom of a system that is no longer sustainable for current or future demand.

2.6 Short term measures are not a suitable method of financing local government and lead to an inability to maximise opportunities for efficient, economic service delivery that come with a good level of certainty around future funding levels. The intention to future-proof local government funding distribution using population projections is a welcome one giving some certainty to future funding levels, although this future-proofing needs to be accompanied by sufficient overall sector funding. This should negate the need for emergency one-off funding solutions from the Government and prevent services needing to, for example, reduce staffing levels to meet savings targets only to be awarded a one-off funding grant at short notice.

**Seasonal population increases**

2.7 Under the current funding system and indeed in the proposed new system, there is no cost driver or adjustment for the effects of significant seasonal population increases. Up to 5 million visits are made to Cornwall each year, putting very tangible pressure on local services. This is a pressure not experienced by all local authorities and therefore it is unfair to expect those that experience seasonal population peaks to absorb the additional costs this creates, especially as population has been acknowledged by the Government as having the single most profound effect on service demand.

**Local tax payers and lack of local control**

2.8 The issue of local tax payers has become prominent as Government cuts to local authority funding have become more severe. Whilst local tax payers cannot be expected to meet all of the rising costs of service provision for social care and other services, the Government has prevented local government from having real control over local taxes. Local government is now primarily
funded by council tax and business rates revenue and so to have such limited control over those revenue streams is unfair and imposes further financial constraints. There is still much to be explored within the current system; for instance local authorities would welcome:

- The freedom to explore greater control of local discounts and reliefs e.g. single person discounts and small business rate relief.
- Re-banding; particularly towards the top end where band H valuations seriously understate real values.
- Removal of existing council tax referendum limits.

**Business rates system**

2.9 Cornwall Council welcomes strategies to allow businesses in the county to grow and succeed. We would however call for the continuation of section 31 grant to compensate the authority for losses resulting from any further business rate relief schemes announced. Unfortunately the extent and number of compensatory section 31 grants that have since been introduced and now underpin the system makes evident the underlying frailties of the business rates retention scheme policy, which are hitting high streets hard, but leave lucrative businesses that can be run from either a very low rateable value or domestic premises untaxed in this respect. This is noticeable in industry sectors like e-business. There is also the concern, especially in areas like Cornwall, where people with second homes – often living outside the area – can avoid paying council tax by advertising their property for rental and applying to pay business rates as opposed to council tax, knowing that they will be under the rateable value threshold which qualifies for 100% business rates relief. This deprives local authorities of income unfairly and this loophole should be closed.

2.10 Also of issue is the recent business rates reform consultation which sought to gather opinion on business rates baseline resets after the 2020/21 reset, focusing on 2025/26 onwards. The logical approach would seem to be to gain clarity on the most imminent reset to inform local government financial plans that are the most pressing to finalise. Where the Government is able to do so, it should correct irregularities like this within the system of periodical funding reviews.

3. 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 Moving to the 8 block model appears to offer, in principle, an improvement in the assessment of the proportionate needs across local government. The ambition of simplicity and transparency needs to be replicated at departmental allocation level however.

3.2 The uncertainty about funding in 2020-21 is unprecedented, and there is, as a result, considerable nervousness about forecasting funding in 2020-21 and beyond. This is unacceptable and it is essential that indicative funding levels are brought forward as soon as possible (and before the summer) along with proposed measures for how a damping or transitional regimes would function in 2020-21.

**Data quality**

3.3 The availability and how up to date the data used for calculating funding formulae should be a focus for the spending review. Inaccurate or out of date data could undermine the validity of the
resulting funding levels which is a concern that Cornwall Council has previously mentioned in connection with the assessment of need for adult social services.

**Adult social services**

3.4 The much anticipated green paper for adult social care needs to provide clarity on the long term strategy for funding through local government. Social care is the largest expenditure area of most local authorities and the future demographic shift towards the older population needs to be taken seriously and funding levels protected based on actual demand levels. This is a growing area of expenditure and cannot be subject to ongoing reductions in funding. Funding for both adult and children’s social care needs to be assessed nationally based on individual criteria for both funding streams, future proofed for demographic projections and fixed into local government funding to provide assurance and prevent local tax payers having to shoulder the increasing burden.

**New Burdens funding**

3.5 The current and forecast funding needs of local government are being impacted on already by the prospect of the country’s exit from the EU. Although a small amount of funding has been provided for “Brexit preparedness”, the outcome of the process is still unknown and therefore so is the impact of the aftermath of the process on local government finances. As an authority at the forefront of the preparations, we would call for the ongoing impacts of leaving the EU to be part of the assessment of local government need. The effects on both the population and the economy, both local and national, could be far reaching and long lived and local government should be supported to assess local impacts and act accordingly.

<table>
<thead>
<tr>
<th>4. 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.</th>
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<td><strong>A holistic approach to public sector funding</strong></td>
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<td>4.1 Although the direction of travel of the needs and resources assessment methodology is largely satisfactory to the majority of local authorities, we feel that this should have taken place alongside the Spending Review and that one should inform the other in respect of the assessment of unmet need currently in the public sector. An opportunity has been missed to take a holistic approach to public sector needs assessment in order to gain a better understanding of the costs involved in departmental operations across the board. The disparity between the cuts to local government sector funding and health funding for example are a result of targeted cuts without a broader understanding of the breadth of the consequences.</td>
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<td>4.2 Local government has responded well to the challenge, but enough is enough. Unfair and disproportionate levels of funding cuts impacting on Local Government over the last decade have resulted in a severe deterioration in the financial standing of local authorities across the sector. Very few authorities are not maximising permitted Band D increases, which must be considered with equal regard to the extra financial burden this has placed on local residents (and especially given additional Social Care Levy rises).</td>
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**Funding inequalities**

4.3 When considering the assessment of need, attention needs to be paid to the removal of inequalities experienced in the public sector across the country. The Autumn Budget promised that going forward public spending will increase in line with inflation. It is essential that MHCLG is awarded a fair share of those rises, and this is not weighted in favour of other priority departments as has been the case in the past. But even a settlement rise of, for example, 2% in line with inflation is not sufficient and will fail to keep pace with inflation and growth in demand.

4.4 Given the level of cuts that have impacted since 2010, and the chronic level of underfunding this has created within Local Government, it is essential that in the forthcoming Spending Review the Government not only takes steps to address the existing imbalance between government departments but then, going forward, also provides for real terms annual growth in recognition and support of increasing demand.

**Future certainty and sustainability**

4.5 The speed at which forward funding decisions are debated, consulted upon and published is by no means satisfactory. Public services that are optimised for value for money and operational performance are the result of certainty and sustainability of funding. Publishing forward funding deals late in the day provides no time for adequate financial planning and could result in decisions which could have been better made with long term funding assurance.

4.6 Cornwall Council would also request that the scope of the 2019 Spending Review include providing longer term certainty to Councils for other local government funding streams from different departments. This would fit well with the principles of simplicity and transparency put forward by the Government more recently with regards to funding the public sector.

4.7 Overall the Government should approach the 2019 Spending Review with an aim of removing the historic bias towards ‘priority’ departments and focus on the real world consequences of the distribution of public sector funds. There should be a focus on the benefits of investment in longer term strategies to reduce demand for services like social care. It is only with sustainability in mind that public service provision can be protected into the future.

4.8 Cornwall Council, as active participants in the ongoing local government funding conversation, would be keen to take the opportunity to give evidence in person to the committee and are confident in our ability to make a valuable contribution to the inquiry.
1. Background

1.1 Cornwall shares many interests with other rural and peripheral local authority areas, including similar demographics, dispersed settlement patterns characterised by small towns and a range of socio-economic indicators. After significant analysis, the Strategy and Engagement service has recognised that in addition to these similarities, there is also an emerging pattern of urban-centric policy making that has the potential to disadvantage these areas, particularly those which lack a major urban hub. Recent examples include the Stronger Towns Fund having a minimum 30,000 population threshold for towns to receive support, the relocation of public bodies targeting only principal towns in the first wave, and feedback on our Creative Industries Sector Deal suggesting that we were considered too rural.

1.2 Furthermore, there appears to be an ongoing focus on funding initiatives linked to mayoral combined authority areas, a governance arrangement that is not strongly associated with largely rural areas. Moreover ‘rural proofing’ does not work as a policy process, with informal feedback from Defra officials supporting this view, with it often seen as an afterthought to policies that have been created through the prism of an urban-centric lens, and there are significant lobbying organisations already in place, such as the Centre for Cities, that regularly put forward the needs and wants of cities at key spending review or bespoke funding programme cycles.

1.3 In light of this, Cornwall Council has approached 15 local authority areas that do not have primary urban areas with a day time population of over 135,000, are predominantly or largely rural, and are unitary or county councils, with a view to setting up a new network called ‘Britain’s Leading Edge’ that will ensure that the story of these areas is put forward to influence policy and future thinking. Utilising this criteria creates a ‘periphery’ around England (and potentially the UK as there is interest from Wales and the Highlands and Islands) of local authorities who fall outside of what we classed as the central ‘policy corridor’ (see attached appendix 1), where evidence suggests the government focusses a large part of its regional investment and infrastructure funding.

1.4 There is an opportunity through this network to develop a powerful argument for the development of peripheral areas as a key part of ‘strengthening the union’, looking at economic development policy not simply through the lens of GVA growth focussed on big cities but on a more structural basis where spatial inequality is taken into consideration (see appendices 2-4 that outline some of the spatial patterns we have identified). Coupled with local and national drivers to start looking at the inherent inequalities that we face within communities, this spatial view could develop a powerful remit and voice.

1.5 Cornwall Council has done a significant amount of research into why these areas have a commonality of interest and are often overlooked through a focus on the ‘policy corridor’, and this includes funding intensities of programmes such as the Growth Deals, sector deals agreements, the relocation of public
bodies and more fundamental issues such as the level of public funding per head by region. It is also illustrative that of the 5 regions (up from 2) that would have been classed as ‘less developed’ had we remained in the EU (less than 75% of the average EU GDP per capita), 4 of these areas are in peripheral regions (see map). We will share all of this research over the coming weeks and months.

1.6 It is also worth pointing out that this network could also develop over time both a strong advocacy and academically supported network that would allow our regions to put forward our voice as strongly as groups such as the Centre for Cities do at key funding cycles or when specific and bespoke funds are available. The ability to challenge the focus on the ‘policy corridor’ through the possible branding of ‘Britain’s Leading Edge’ could redefine the ‘story’ of our collective regions into one that resonates from a policy perspective as much as that of the cities. We are not suggesting developing a membership organisation; this is about a shared community of regions with a common set of interests that can magnify their voice to change the nature of regional and national policy.

1.7 The first meeting of authorities took place at the end of February, and there was significant interest in developing this network. We expect that we will meet quarterly initially, with a potential first meeting in June/July 2019 to set the parameters for what we want the network to achieve. It should be highlighted that this network will work in conjunction with existing networks such as the County Council Network and the Rural Services Network, and there will be specific issues that are better aligned to a Cornwall or South West only collaborative approach.

1.8 On the subject of the South West, a complementary initiative has recently been put forward which would see the creation of an ‘All-Party Parliamentary Group (APPG) for the Great South West’ - based on the geography of the Cornwall and the Isles of Scilly, Heart of the South West and Dorset LEPs - to create a stronger voice for the region within Westminster. The intention is to incorporate the currently inactive ‘South West Rail’ APPG into the new one to provide a more holistic and strategic focus.

1.9 A Great South West APPG would again highlight the importance of the region and proposition to Government, to achieve parity with the Northern Powerhouse and Midlands Engine. Membership would be sought on a cross-party and geographical basis to ensure all areas are represented, with the Heart of the South West LEP acting as ‘secretariat’ to the new APPG.

2. Why now?

2.1. This is a crucial time for us to establish a louder voice for our regions, especially the South West, both because of the development of the Shared Prosperity Fund, the opportunities associated with the Local Industrial Strategies and the possibilities of the upcoming devolution framework. There remain significant challenges to the fairer funding challenges that rural areas face vis-à-vis their urban counterparts.

2.2. Recognition for rural governance models as equal to their mayoral combined authority counter parts should also been seen through the lens of equivalency of accountability, transparency and efficacy, rather than just on one model being preferred over another, irrespective of need. As the Industrial Strategy develops, post-Brexit frameworks emerge, replacements for EU structural funding are established, and the Spending Review looms, it is vital that the needs and potential of rural, peripheral and small town areas are heard.

3. Support requested

- That the principle of rural proofing is removed in favour of a specific policy development focus on Britain’s peripheral areas
That the principle of a ‘strengthened union’ is not only seen through the prism of the devolved nations and includes a structural commitment to rebalance the economy outside of the ‘policy corridor’

That MPs support the developing network through key contacts in the 15 regions on areas of common interest
Appendix 1. Britain’s Leading Edge; the ‘policy corridor’ and the proposed regions to be included

Strategy and Delivery – Cornwall Council (2019)
Rural Networks Authorities: as outlined by Cornwall Council (2019)
Less Developed Areas of Europe: as defined by the OMR8 report (2019) [Less than 75% of average EU GDP per capita]
Mainly and Largely Rural Areas: ONS classifications
Centre for Cities is based on the methodology outlined: https://www.centreforcities.org/the-changing-geography-of-the-uk-economy/

*Boundaries are changing, both electoral and council, to create Unitary Authorities. The data for Dorset is therefore based on estimates to exclude Bournemouth, Poole and Christchurch data. For Somerset, the invited authorities exclude areas in BANES and West Somerset. For Devon, Torbay and Plymouth regions are excluded from all data sets.
Appendix 3. Local Growth funding per LEP area

Local Growth Funding – Per LEP (Total Funding Allocations)

*Strategy and Delivery – Cornwall Council (2019)*
LEP boundaries and funding based on ONS data.
Appendix 5. Britain's Leading Edge, proposed areas

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Strategy and Delivery – Cornwall Council (2019) ONS
Population – Based on Projected Population (2017) ONS
Election Data – Based on last election https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7879
* Boundaries are changing, both electoral and council to create Unitary Authorities. The data for Dorset is therefore based on estimates to exclude Bournemouth, Poole and Christchurch data. For Somerset, the invited authorities exclude areas in BANES and West Somerset. For Devon, Torbay and Plymouth electors are excluded from all data sets.

April 2019