Written evidence submitted by Rotherham MBC [FSC 060]

Evidence to the Housing, Communities and Local Government Committee Inquiry into Local Government Finance 2019.

The Council welcomes the opportunity to submit evidence to the Housing, Communities and Local Government Committee Inquiry into Local Government Finance. Much of the Council’s submission will relate to the issues outlined in the Committee’s request for evidence; in particular, how effective the existing funding set-up for local government is in providing resources to meet need and demand for local services at present and in the future.

Local Context
Since the introduction of austerity measures in 2010 which has resulted in significant reduction in central Government funding, the Council has made savings of £177m, with further savings of £30m approved for delivery over the next two financial years, in order to achieve a balanced budget. In spite of the reduction in resources, the Council has undergone a major improvement journey since May 2015. This has led to the transformation of Children’s Services – which are now rated “Good” by Ofsted. The Government appointed Commissioners were withdrawn in September 2018 and the Government intervention formally ended on 31st March 2019.

Despite the positive direction of travel the challenges facing the Council remain significant. The Council continues to face financial pressures in respect of adult social care as a result of increased client numbers and the rising cost of care packages, despite the recent additional funding announced at Budget 2017 and additional Council Tax income flexibility from the Adult Social Care precept.

There is also continuing cost pressures for children’s social care. Further details of the pressures faced by the Council are set out later in this response.

As the Local Government Association has stated a key element of this challenge for all authorities will be establishing sustainable funding without which councils will be unable to deliver essential services.

Business Rates Retention
The Secretary of State James Brokenshire has indicated that “…the engine of self-sufficient growth-led local government of the future” will be Business Rates Retention and that the current “business rates retention reform consultation will build on my department’s existing work with the sector to improve the way local government finance works”.

This approach is not without significant risk for authorities like Rotherham, which have suffered from post-industrial decline. This has left the Borough with a relatively low business rates base, dominated by a limited number of large rate payers which represent just under a third of the Council’s rates income and are from a narrow range of business sectors on a limited number of sites. Although the largest single ratepayer is Speciality Steel UK, manufacturing represents only 7% of the larger ratepayers; the largest sector is retail and is concentrated in retail parks.

In spite of this, the Council has been working to promote the local economy and with it the subsequent local rates growth. A recent study by Irwin Mitchell and the Centre for Economics and Business Research (Cebr) for the UK Powerhouse examining growth and job creation within 45 of the UK’s largest cities, identified Rotherham as having the fastest growth in Yorkshire and the Humber, with 1.4% annual growth estimated for Q3 2018, and 1.5% forecast for Q3 2019. This growth has been built on Rotherham’s historical manufacturing sector specialising in heavy steel, and the Borough now plays a key role in the manufacture of bespoke products for the aerospace, nuclear and transportation industries, driven by research and development in technologies.
A key factor in Rotherham’s growth has been the Advanced Manufacturing and Innovation District – which sits on the Rotherham/Sheffield border – and the University of Sheffield’s Advanced Manufacturing and Research Centre, however this is within an Enterprise Zone and rates income is retained by the Local Enterprise Partnership (LEP) not the Council.

The Council’s performance in promoting and supporting economic growth demonstrates its commitment to the principles of Business Rates Retention but the chief concern for Rotherham is that whilst Business Rates represent an increasing proportion of the authority’s income, there is a mismatch between the Council’s ability to generate rates income and the need for increased spending on services, particularly social care for adults and children as a result of rising demand. For example in 2019/20, NNDR1 Returns nationally forecast an increase of 0.6% in Total Rateable Value. Combined with the 2.3% increase in the multiplier Gross Rates Payable are projected to rise by 2.9% - however The King's Fund paper “A Fork in the Road: Next Steps for Social Care Funding Reform”– May 2018 identified that demand for social care is growing at an average rate of 3.7% per year outstripping the growth in income. Rates Retention can only be effective if spending need is adequately resourced and resources are directed to where they are most needed.

Finally, in spite of the Government’s hope that the proposals in the Business Rates Retention Consultation paper will improve the working of local government finance, the Council is concerned that the Business Rates Retention Scheme will become overly complex.

**Council Tax**

The other source of locally raised funding is Council Tax. Rotherham has, over several years maintained its position as one of the best performing metropolitan authorities nationally for Council Tax collection. In 2017/18, (the latest year for which comparisons are available) it was the 4th highest performing Metropolitan Borough with an in-year collection rate of 97% - above both the metropolitan borough and national average.

In 2019/20 Rotherham increased its Council Tax by 2.99% to £1,522.20 for a Band D property. The total tax paid by residents including precepts rose by 4.15% compared to the national average increase of 4.7%. Comparisons between Band D tax levels are not as helpful as reviewing the average council tax per dwelling. This is recognised by the MHCLG as a “useful measure for comparing the amount of council tax paid by the average taxpayer in each local authority”. The MHCLG release; ‘Council tax levels set by local authorities: England 2019/20’ gives the average Council Tax per dwelling for 2019/20 in England as £1,327 compared to the Rotherham figure of £1,109 which is in line with the average for metropolitan authorities £1,094.

However as the Government states “…different local authorities often have very different tax bases in terms of the band of dwellings in their area”. In England, Council Tax bands A to C account for almost two-thirds of all dwellings. In Rotherham this proportion is 86% with 54% in Band A. Whilst Rotherham’s Council Tax Base increased by 1.5% in 2019/20 in line with national growth, the sum raised by Council tax increased by only 3.5% from £102.338m to £106.980m compared to the increase in Council Tax yield nationally of 6.4%.

In the same statistical release, the Government notes that London is “an area of relatively low council tax compared to the rest of the country, with 9 of the 10 lowest local area Council Tax in the country”. This implies that there is a disparity between authorities in terms of the levels of Council Tax income and taxbase growth. To address the differences in authorities’ ability to generate income – which are are often outside the control of the authorities - some form of resource equalisation is necessary. For example, Rotherham’s ability to generate Council Tax income is affected by factors such as Council Tax forgone due to local council tax support for working age claimants which is driven by factors such as income levels, rates of unemployment and of disability.

**Relative Needs**
There must be a distribution methodology that reflects an authority’s relative ability to generate income in comparison to its needs. Relative spending needs can differ significantly between geographical areas/types of authority. There is a widely recognised link between deprivation as a driver of demand for and cost of local government services. There are significant levels of deprivation within Rotherham - the borough was placed 52\(^{nd}\) out of 326 local authority areas by the 2015 Index of Multiple Deprivation (IMD). The Rank of Average Score – an indicator of overall deprivation and on Rank of Local Concentration, the Council is placed 23\(^{rd}\), within the most deprived 10\% of authorities.

Although the Council acknowledges the principle of councils keeping more of the income which is raised through local taxes, deprivation levels within the Borough give rise to the need for high levels of spending that are not matched by local resources. The disparity between need and resources means the Council faces a difficult challenge to maintain its current performance, build on the improvements it has made in key services, deliver the planned step changes to its services and achieve financial stability. Business Rates and Council Tax should be part of a fair funding system which recognises spending needs and directs resources to where they are most needed.

In recent years this has not been the case. The report ‘The depths of the cuts: uneven geography of local government austerity’ described the impact of cuts to local government funding and concluded that there has been a correlation between the level of cuts in service spending and deprivation and that in the less deprived areas, service spending cuts tend to be smaller. Local authorities with higher levels of deprivation have fared worse in terms of resource reductions as uniform cuts have been applied to need-based funding. Areas which are more reliant on central government funding often have a lower capacity to generate council tax and business tax revenue than more affluent areas.

**The Fair Funding Review**

The Fair Funding Review is examining the system used to allocate resources between authorities to create a funding formula that draws a more understandable link between the need for services and local funding.

The Council has argued that such a system should:

- be able to provide a stable and predictable level of resources over time and take account of authorities’ needs whilst having the flexibility to respond to changing circumstances.
- take account of an authority’s ability to raise income from local taxes and other sources (such as fees and charges) so that people in similar circumstances pay the same price for receiving the same service outcome no matter where they live.
- not rely on past expenditure patterns but focus on service outcomes and support efficiency (by distinguishing between need and inefficiency).
- be plausible, transparent and understandable.

The Council is concerned that proposed changes in the Fair Funding Review do not appear to take account of deprivation. These include a “Foundation Formula” allocating resources for services not covered by a specific allocation which represents a large proportion of the relative needs assessment. This formula relates to services such as: public transport (incorporating concessionary fares), homelessness, libraries, regeneration functions, leisure and sports and recreation. The proposed formula did not include deprivation as a driver of costs.

The basis for this decision appears to be the Government’s opinion that “in aggregate terms, deprivation was not a major cost driver for the services included in the foundation formula” - the Consultation Paper indicates that calculations by the Government showed that deprivation accounts for 4\% of the variation in past expenditure.
The Council argues that as resources have been withdrawn, authorities have had to prioritise services such as social care in consequence reducing spend on other services such as those that will be covered by the Foundation Formula, leaving unmet need which is not identified by regression.

It has been recognised that although there is pressure on children’s social care nationally, Rotherham is facing particular challenges. Rotherham’s service has been rated as “Good” by OFSTED, however in 2018/19 the Council overspent its children’s services budget by £15.7m and analysis by the Special Interest Group of Metropolitan Authorities (SIGOMA) identified a 90% rise in the Council’s spending during the period 2010-2016 compared to an average of 30% for all other English local authorities.

The Council believes that a key cost driver in this service comparison is the number of Looked After Children (LAC), as over 70% of current spending on children's services is related to safeguarding and LACs. A recent Public Accounts Committee report recognised that LAC numbers nationally are at a 25-year high and that this represents an ongoing significant financial pressure for authorities. Benchmarking data highlights that Rotherham has experienced the 3rd highest increase in LAC (out of 152 local authorities) between 31st March 2017 and 31st March 2018 and compared to statistical neighbours has the largest increase.

Since 2015 the number of LAC in Rotherham has increased by 63% as shown below.

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<tr>
<th>Date</th>
<th>LAC</th>
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<tbody>
<tr>
<td>31/3/2015</td>
<td>407</td>
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<tr>
<td>31/3/2016</td>
<td>431</td>
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<tr>
<td>31/3/2017</td>
<td>485</td>
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<tr>
<td>31/3/2018</td>
<td>619</td>
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<tr>
<td>15/11/2018</td>
<td>662</td>
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Rotherham also continues to face unique circumstances. The National Crime Agency’s Operation Stovewood is the biggest ever investigation of its kind in Britain.

Effective support and care to the survivors both during the investigation and following the judicial process is crucial to their wellbeing, that of their families, and the ultimate success of Stovewood. This process inevitably has an impact on local agencies and creates demand elsewhere in the system. Partners are working together to ensure that pathways to support for survivors, and interventions to disrupt offending, are delivered effectively. The role of multi-partnership working is fundamental to the success of the operation, so I am keen to ensure that the Council and its partners are sufficiently funded to support its continued operation.

The Council has been working hard to engage a number of Government departments, not least the Home Office, Department of Health and Ministry of Justice to enable effective partnership working arrangements, such as the establishment of the Stovewood Trauma and Resilience Service which has provided direct support and supervision to the voluntary sector, statutory organisations and to the National Crime Agency (NCA).

The funding support to partners - £250k to the local Clinical Commissioning Group is welcome in supporting Operation Stovewood. The Council also receives £500k per annum from the Department for Education to assist with Children’s Social Care costs associated with Operation Stovewood. However, the latest estimates suggest that the overall cost to the Council in the coming year will be £7m, leaving an unfunded cost of £6.5m to the Council in 2019/20 and for the foreseeable future beyond. The funding that the government has quite rightly committed to law enforcement and investigation is simply not matched by the necessary resources for our survivors.

Whilst proposals in respect of a Children’s Social Care Funding Formula are still to be released, it is concerning that the recent National Audit Office (NAO) review of children’s social care found that the Department for Education “still does not fully understand what is driving demand for
children’s social care or why there is such wide variation between local authorities in their children’s social care activity and costs” (NAO Pressures on Children’s Social Care 23rd January 2019) and that work to work to tie together available sources of information will not be complete until summer 2019.

A further area of pressure across all authorities is social care budgets. In September last year the LGA indicated that since 2010, councils have had to bridge a £6billion funding shortfall within the existing adult social care system and that, although adult social care services have been protected in comparison to other council services, there is still a £3.6billion funding gap for the next 6 years. This is just to maintain existing standards of care and does not allow for any currently unmet need.

In the absence of the delayed Social Care Green Paper, it is difficult for councils to determine sustainable plans for this crucial service.

The Fair Funding review also considers the differences in input costs across geographical areas. This has previously been addressed within resource allocations by means of an Area cost Adjustment (ACA) and the current review also proposes such an adjustment. Whilst the Council recognises that input costs in some areas are higher and would justify an Area Cost Adjustment, any such adjustment must be supported by evidence and measure the actual costs falling on authorities – otherwise it can serve as a means to pass resources to authorities which do not need them.

Calculations of an Area Cost Adjustment should take account of the effects of the national living wage on standardising minimum wage values nationally and of the implications of rising levels of ‘out of authority’ service commissioning on harmonising both adult and children’s social care costs (the latter is referenced in the study by the University of Bedfordshire in 2014 on the use of ‘out of borough’ placements for LAC by the London boroughs.) The Council is also concerned by the proposed untested use of rurality as an universal cost adjustment outlined in the recent Consultation Paper. It is urged that studies of the impact of these factors in social care costs is undertaken before any area cost adjustment is established.

The Government’s intention is to introduce the new needs assessment methodology in 2020 as part of the 2020/21 Local Government Finance Settlement. In the past, authorities were protected from large reductions in their funding arising from changes in needs assessments by means of damping. Protection for authorities losing resources was funded by authorities with increased allocations. Damping was intended to unwind over time, however, following the last review of resources distribution, damping was frozen in 2013 with the result that Rotherham and similar authorities have not been fully funded at the level of their assessed need to spend for some time – having lost resources to support authorities with lower levels of assessed need.

Whilst the Council recognises that transitional arrangements are necessary to allow authorities to assess the impact of any changes in needs assessments and to reflect them in budgets and medium term financial plans, the Council argues that any transition should be limited and authorities should achieve their full resource position within no more than 4 years. To avoid repeating the impact of damping on funding levels experienced by the Council and other authorities following the last review of needs formulae, the Council urges that any damping should be funded by central government and not from within the resource needs system.

2019 Spending Review
Local Government has been in a period of uncertainty for some time pending the outcomes of the Comprehensive Spending Review and the Fair Funding Review. Both the Fair Funding and the Business Rates reviews seek to further incentivise the growth of local resources which underpins the current system but this will be effective only if spending need is adequately funded.
The LGA has identified an £8billion funding gap for the local government sector by 2025. Without a substantial increase in the overall quantum of local government funding to ensure there are sufficient resources in the local government finance system to meet existing and future need any method of allocating local authority funding will be fundamentally flawed. The continuity of essential services to the most vulnerable in our society requires that resources are fairly distributed where they are most needed.

It is a matter of concern that the conclusions of the of the 2019 Spending Review will only be available late in 2019, by which time budget planning by local authorities for 2020/21 will be well-advanced. Furthermore, the timetable for the implementation of the Fair Funding and Business Rates Retention Reviews in April 2020 is extremely challenging given that local authorities have yet to see exemplifications for the proposals to the revised system. The outcomes of the reviews in the form of baseline funding allocations and the associated transitional arrangements will not be available before the autumn, leaving authorities little time to prepare their 2020/21 budgets and update their Medium Term Financial Strategies.

In 2015, the Government made a multi-year funding offer to local authorities to support councils with medium term financial planning. The decision was welcomed by the section and has helped local authorities to plan its budgets over the medium term, although increased demand for services have hindered authorities in produced a balanced outturn position year-on-year. The Council urges the Government to provide details of the funding settlement for the three-year period 2020/21 to 2022/23 to support robust financial planning.

April 2019