1. **Executive Summary**

1.1 The main points made in this submission are as follows:
- Additional funding is needed in the local government sector in order to maintain to just maintain the status quo
- There is a need for the distribution of any local government funding to be fair and equitable, using a formula that takes into account not just the population size, but also deprivation levels and the local authority’s ability to generate income through Council tax.

2. **Context**

2.1 BCC is a large Metropolitan Council serving a population of 1.15 million residents and it is projected that the population will increase by a further 156,000 people by 2031, meaning that a further 89,000 homes will be required in the city. Birmingham has high levels of deprivation, with 42% of Birmingham children living in poverty, and many affected by welfare cuts. Birmingham has been assessed as the 6th most deprived English local authority, with poverty particularly concentrated in parts of the city, leading to wide inequalities in life expectancy across the city. Consequently there is high demand for Council services.

2.2 Birmingham is home to more than 40,000 businesses, including 7,500 tech firms. It has recently been rated as the UK’s most rapidly improving city.

2.3 The Council generates a relatively low proportion of its income from Council Tax and receives a significant amount from the current business rates retention scheme (part of Government funding allocation control totals) along with other Government grants. Therefore, the Council is significantly affected by changes in local government finances due to its reliance on central government funding (including the business rates scheme) and limited ability to generate its own income locally from Council Tax.

2.4 After almost a decade of austerity driven cuts, the Council faces challenging financial circumstances. Savings of more than £690m have been made across vital services to support residents since 2010. The Council has plans to deliver further savings of £85 million over the period 2019/20 – 2022/23, taking the total annual savings over 12 year period to £775 million. The grant reductions have been even greater in real terms.

2.5 In spite of the financial challenges, Birmingham remains an ambitious city, and has exciting projects in the pipeline, such as the Smithfield Development, the planned developments at Langley with the creation of a further 6000 homes and Curzon Investment Plan, which will create jobs and opportunities, improve the city’s infrastructure and increase the taxbase. The Commonwealth Games will be hosted in the city in 2022 and with the arrival of High Speed 2 (HS2), there will be additional opportunities generated. It is becoming increasingly difficult for the Council to simultaneously protect vital
services and protect jobs in spite of attempts to reduce costs and transform services.

3. **Key Messages**

3.1 Local government has suffered some of the largest austerity cuts within the public sector. With spending pressures still increasing and most efficiency savings having already been made, Councils, including Birmingham, are having to make hard decisions in terms of service delivery. Without additional funding, there is a real risk that some statutory services will not be delivered in the future. The Institute for Fiscal Studies estimates that to maintain current levels of access and quality of adult social care alone will require a yearly growth rate of 3.7% in real terms.\(^1\)

3.2 Increased public sector expenditure commitments must be accompanied by additional resourcing. It is no longer sustainable to fund these commitments from resources that would otherwise have been allocated to unprotected areas. Local authorities have had no protection in previous Spending Reviews, and any further cuts would adversely affect service delivery to residents.

3.3 To compound the scale of the cuts across the sector, the Government allocated the proportionately largest cuts to those authorities with the highest levels of deprivation in 2014/15 and 2015/16 by not taking into account the ability to raise council tax income. From 2016/17 the Government changed the methodology to allocate cuts but did nothing to reverse the cuts made in 2014/15 and 2015/16. Therefore, those authorities with the highest level of deprivation have been operating with permanently lower relative levels of resources compared to those with lower levels of deprivation.

3.4 There is a need for permanent and sustainable streams of funding to be provided to fund public services. Too often, there have been temporary fixes by Government in the form of one-off grants or the Social Care Precept. Whilst these initiatives are welcomed, this position is not sustainable and does not allow for effective future planning by local authorities.

3.5 Long awaited reforms need to take place at the same time as this Spending Review to ensure that pressures can be contained and addressed. The Green Paper for Adult Social Care is one such example of this. Similarly, work on the formula funding review needs to align closely with any such reforms.

3.6 There is need for additional flexibilities in local authority funding, for example

\begin{enumerate}
\item through lifting of restrictions on Council tax increases
\end{enumerate}

\(^1\) Institute of Fiscal Studies (IFS) and Health Foundation, *Securing the future funding of health and social care to the 2030’s*, (May 2018)
b. granting further flexibilities in the use of capital receipts

c. removing ringfences on grants

d. increasing additional scope for grants to deliver wider outcomes

e. drafting legislation that transfer income raising ability to local authorities in the form of levies or additional taxes.

Such local taxes or levies could then be used to fund major projects.

4. **CLG Select Committee Business Rates Inquiry**

4.1 Details of the Spending Review

The following address the specific questions raised as part of this consultation process.

- **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.**

4.1.1 Historically, Government funding has not kept pace with demand-led pressures. Following public outcry particularly in relation to social care, there has been some attempt to provide one-off funding in the form of temporary grants, e.g. Winter Pressures and the Social Care Support Grant. Birmingham has received an additional £15.2m of funding in respect of these grants to fund emerging pressures. Whilst this intervention is welcomed, this one-off approach is not conducive to long term planning and sustainability of the sector.

4.1.2 The introduction of the Social Care Precept is another initiative that has partially alleviated pressures, with 2019/20 being the final year of its application. Birmingham has been able to raise an additional £61.5m via the precept (including the £6.6m planned for 2019/20) to support social care provision. It is also recognised that Government allocated £2bn of resources across the sector in the form of the Improved Better Care Fund Grant (iBCF) in order to meet adult social care needs and reduce the pressures on the NHS, including providing support to people who need to be discharged from hospitals. Birmingham’s allocation of this grant in 2019/20 is £60.3m. There is no clear indication as to whether iBCF will be allocated on an ongoing basis therefore local authority planning becomes even harder.

4.1.3 The pattern of cuts across departments has not been uniform. For the last review, the NHS, schools and international aid have all received different levels of protection; this is set to continue in this review, with a further £20.5bn promised to the NHS. These protections have historically been funded by making larger cuts in non-protected areas, such as local government. The New Economic Foundation estimates that in 2019/20, protected spending accounts for 82% of the overall resources, with 18% making up non-protected resources.\(^2\) The scale of protection cannot be sustained in the long term, nor can cuts continue to come from the same

\(^2\) NEF Analysis, Austerity By Stealth – Options for the Chancellor at the Upcoming Spending Review (2018), www.neweconomics.org
unprotected services. There is a disproportionate impact on local authority budgets, one of the un-protected areas, in the form of increased real term reductions due to the gearing effects of this approach.

4.1.4 Birmingham welcomes the announcement that the additional NHS funding of £20.5bn by 2023/24 will come from a combination of tax rises and a “Brexit dividend”. Unlike past spending reviews, Government has at least committed to finding an alternative source of funding for this increased allocation. This is a departure from past approaches where increases were funded from existing resources. Any commitment for increased spending must see a corresponding increase in the overall Department Expenditure Limits.

4.1.5 In addition, Government needs to ensure resources allocated to a particular sector are then distributed equitably and fairly, using a methodology that takes account of a variety of factors. In some allocation rounds, account has not always been taken of the local authority’s ability to generate additional income via Council tax. Birmingham contends that the ability to generate income through Council tax should be taken into account in assessing the resources available to local authorities; not doing this will penalise areas with the highest levels of deprivation and therefore those that offer the highest levels of Council tax support, along with those with high levels of students in residence. Deprivation is regularly used as a proxy for protected characteristics, in particular areas with high levels of disabilities and ethnicity. These authorities would then have to make proportionately greater reductions in the services that they provide than those receiving the additional funding. The IFS research, ‘Financial sustainability of local authorities 2018’, found that excluding London, “there is a clear pattern of higher levels of deprivation being associated with lower ratios of tax revenue capacity to spending needs”. 3 This suggest that the Spending Review has to provide more funding to the sector and the closely linked Formula Review, allocate significant increases in funding to deprived local authorities because they are less able to generate resources from their tax base and suitably address fairness in local government funding.

4.1.6 The Council remains extremely concerned about the short period of time between the notifications of the outcome of the Spending Review work and the need for Councils to set budgets for 2020/21 and beyond. Clear communication and engagement between all stakeholders in the lead up to the Spending Review announcements must be done in order to provide sufficient information for the setting of local authority budgets. Local Government has a duty to consult on changes to the services it provides. The late notification of local government funding allocations around November/December 2019 for setting the 2020/21 budget prevents meaningful and informed consultation with residents.

4.1.7 Managing to deliver quality services to the public within the current financial conditions has proven to be extremely challenging. The Council has delivered £690m of cuts since 2010 as a response to the almost decade of austerity driven cuts. More specifically, since 2016/17, the Council has delivered approximately £100m of savings, with a further £46m planned for 2019.20, which means a total of

3 IFS research, @Financial sustainability of local authorities 2018
£146m of savings delivered and planned for the period covered by the previous Spending Review.

4.1.8 In the initial stages of the Council’s savings agenda, there was protection of front line services in relative terms, but due to the scale of the savings required, the front line can no longer be protected. For example, as part of the 2019/20 savings programme, £14.6m of savings will be delivered by the Adult Social Care Directorate. This rises by a further £20.4m by 2022/23. The service within Birmingham has started a Transformation and Change Programme which focuses on enablement, shared living and building community capacity so as to reduce demand for formal care by 5% in 2018/19, with further reduction in demand up to 30% planned by 2020/21.

4.1.9 Further savings have had to made through ceasing, reducing or re-designing a range of other services, most of which have a direct impact on the public. The following provides a few examples of services where Birmingham has implemented cuts, and the scale of the savings since 2016/17. The figures below include the planned savings for 2019/20.

- Arts and cultural activities - £4.3m
- Waste services - £5.0m
- Libraries - £2.8m
- Parks, sports and leisure services - £7.8m
- Neighbourhood and Community services - £1.5m
- Early years provision - £2.6m

4.1.10 Increasingly, the Council has had to introduce or increase charging across a wide range of areas including: garden and bulky waste collection, parking, fine enforcement, leisure facilities, planning services, registrar services, cremation and burials and venue hires. Since 2016/17, additional income of £18.4m has been delivered/ planned due to increased fees and charges for Council services.

4.1.11 In order to balance its budget or fund outturn overspends, the Council has had to make use of over £100m of reserves in the past three years. Whilst this position is similar in other local authorities faced with financial challenges, the scale of the reliance on reserves provoked a warning from the Council’s external auditors. 2019/20 has been the first financial year in a long time in which the Council has not relied on the structural use of reserve to balance it's in year budget and has also not used general reserves outside of its recently approved Reserves Policy. Current forecasts indicate that the Council will have only £124.8m of general reserves and balances by 2022/23, (about 15% of the 2019/20 net current budget), a relatively modest amount for a local authority the size of Birmingham, especially given the use in recent years.

4.1.12 Birmingham faces significant expenditure pressures across all of its services, largely as a result of changing demographics, increased demands and high levels of deprivation. Three areas have been drawn out below for illustration purposes:

a) Adults Social Care – The pressures on Adult Social Care nationally have been well rehearsed. ONS statistics forecast that over the next 5 years, 2% of
Birmingham’s population will be over 85 years, whilst 13.5% of the population will be over 65 years. The rate of increase in the over 65 population is expected to be 0.1% annually within Birmingham. This creates additional demands from individuals with increasingly complex needs and greater expectations about Council support. Birmingham’s issues are particularly pronounced due to the high levels of deprivation and the reliance on the Council to fund care. The ability to generate additional resources through the Social Care Precept has been welcomed, but the amount raised has been insufficient to fully fund existing pressures within the care sector given Birmingham’s relatively low taxbase compared to other authorities. It is recognised that the allocation of iBCF to local authorities took account of the tax raising abilities, so there is a partial offset of some pressures, nevertheless an issue remains.

b) Children Services – The Council’s rate of children in care per 10,000 children under 18 is greater than the average for England. Increasingly, these children require complex support needs. In addition, Birmingham has experienced a 13.9% increase in the number of pupils with a Statement of Education Needs (SEND) statement over the three years from 2015 to 2018. The increasing demand for SEND transport services has been a particular source of pressure for Birmingham.

Spending levels have also reduced in terms of education spending. Whilst on a national level schools funding has received some relative protection in real terms, per pupil funding has fallen due to increasing pupil numbers. Birmingham’s increased pupil numbers are largely driven by migration and high birth rates among the population. Per pupil spending at the primary level was 9% lower in 2018/19 than in 2015/16, whilst that for the secondary school level was 27% lower. The consequences of this squeeze are that schools are struggling to cope within the financial constraints. Forty seven Birmingham local authority managed schools are currently operating a budget deficit.

c) Homelessness- The new Local Government Network Leadership survey has reported that around 67% of local authorities think they do not have sufficient funding to fulfil their statutory duty to prevent homelessness in accordance with the statutory duties outlined in the Homelessness Reduction Act. According to the survey findings, only 19% of local authority Chief Executives feel that they have adequate funding to meet the requirements of the Act, and 86% of predominantly urban councils say they are unlikely to meet their statutory duty. Since 2016, Birmingham has seen a steady increase in the number of people presenting as homeless. The increase over the past 3 years has moved from around 1200 to 2500 in January 2019. Using historic trends, the Council forecasts that the total number of households in temporary accommodation would reach just over 3500 if the Council did not implement mitigations. Along with resources granted to the Council in the form of

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4 Population projections 2016, Office for National Statistics
5 CFO Insights
6 NLGN Leadership Index - April 2019
Government grants (Flexible Homeless Support, Housing First, Homelessness Reduction and Rough Sleepers Initiative). Birmingham welcomes these allocations of grant funding, however, there has been no confirmation as to whether such funding will be made available on an ongoing basis. Birmingham has invested an extra £2m of local resources in Homelessness Services since 2017/18, and this investment is planned to continue until at least 2020/21, when additional resources invested will reduce to £1m.

4.1.13 The immediate financial challenges are compounded by the uncertainties that surround the funding arrangements for local authorities. The period of time between the Spending Review and Fairer Funding review and the need to set the budgets for 2020/21 is extremely tight. In addition to this, there are plans to review and reform the business rate retention system. Therefore, it is extremely difficult for Birmingham to make informed assumptions about future funding as there is little information so far about priorities, how much funding will be available, how it will be distributed or even the means of delivery. A pessimistic view about the potential outcome can lead to unnecessary cuts being made whilst an optimistic view can lead to too little time to respond to any overestimation.

➢ 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.

4.1.14 The current levels of funding allocated to the local government sector are insufficient to fund all expenditure pressures currently within the system. The LGA estimates that local authorities face a funding gap of £7.8bn by 2025\(^7\), and this funding gap represents a significant challenge to not only maintain the status quo but also fund unexpected cost pressures. Should Councils not receive additional funding to plug this gap, then further difficult decisions will have to be made in terms of cuts on top of existing plans. However, if the £7.8bn gap is funded, Birmingham would then be better able to sustain vital services for the public.

4.1.15 Short term cuts to local authority funding represents a false economy, and therefore the current approach is in need of some review. For example, reduced money available to support older people will mean more hospital admittances and increased pressure on the NHS. Additionally, some commentators believe that reduced spending on youth services leads to an increased crime and reduced spending on the highways lead to future high costs infrastructure projects. Therefore, there is a need for Government to focus on the long term impact of any funding decisions as part of the Spending Review.

4.1.16 In terms of improvement, Government can allow local authorities additional freedoms in terms of setting it Council tax increases in absolute as well as

\(^7\) Local Government Association, ‘Local Government funding – Moving the conversation on’, 2018
percentage terms. Council tax increases are effectively capped by the Government through the referendum policy. Whilst it is recognised that the funding burdens for local authorities cannot simply be shifted to the local residents, Birmingham still contends that any increase in Council tax should solely be a local decision. Birmingham’s ability to mitigate the cuts it is required to make by increasing Council Tax is limited due to its relatively small taxbase.

4.1.17 The business rate system is also in need of further reform in order to create a more equitable system, addressing the internet economy based businesses who may not potentially be paying their fair share of business rates. There is significant volatility in the number of appeals raised in respect of business rates and local authorities should not be expected to foot the bill in respect of these. MHCLG is currently investigating an option to remedy this, but it needs to be progressed at pace if it is to be introduced by 2020/21. This is yet another dimension that creates uncertainty as it would change the way in which local government receives rewards for growth in business rates,

4.1.18 A significant number of fees of charges are regulated by Government and therefore the Council’s ability to raise income from these sources is limited. For example, fees and charges for adult social care are nationally regulated and subject to means testing, with contributions to funding set. The forthcoming Green Paper on Social Care (which has been delayed several times) should consider both of these issues. Planning and licensing fees are also nationally set. Often, Government has limited the charges of other services to being able to only recoup the costs of providing a particular service, thus limiting the commercial income generation activities of local authorities. National pricing is not responsive to local demand, and cannot be used as a lever by councils to influence demand for a particular service. Some further flexibilities in terms of fees and charging may be useful, although it is recognised that a Council, particularly one like Birmingham with high deprivation levels, will never be able to solve its financial challenges simply through increased fees.

4.1.19 Additionally, there is need for greater flexibilities in the use of grants. The Disability Facility Grant (DFG) is one case in point. Based on legal advice, Birmingham understands DFG is not available to be spent on council tenants. The Council has particular concerns about this restriction. Pressures on capital budgets, particularly in responding to Grenfell, and increases in referrals and demands from council tenants means that capital budgets are being squeezed. Some flexibilities to use DFG to support council tenants would be particularly helpful to support the Council’s Housing Revenue Account financial position, without costing Government anything extra. It has been the Council’s experience that ever increasing levels of adaptions are being made on old council housing stock as there is a low supply of alternatives within the existing stock to facilitate a move when a demand is registered. Lifting this restriction will assist in reducing the current inequalities in access to adaptions locally and nationally between disabled residents who live in the private sector and those who are Council tenants.

4.1.20 Finally, the extension of the current flexibilities to fund specific revenue projects from the proceeds of asset sale may be useful in this regard. Opportunities to introduce additional levies, once accepted by local residents, should also be given
consideration in order to fund specific projects in a particular area, for example
airport levies, tourism taxes, supplementary business rates, etc.

4.1.21 Government should recognise the value of preventative and early intervention
services, and fund these appropriately if sustainability is one of the goals of the
Review. These services represent value for money and minimise or prevent future
pressures in the system at a later date. Appropriate funding would allow for better
integration of services across the public sector, better partnership working and
improved outcomes for residents. For example, interventions for children and
families might save public money across a range of policy areas. A major
investment in public health, for example may lead to improved health and wellbeing
for citizens, reduced inequalities and will eventually relieve pressure on the NHS.

➢ 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.

4.1.22 The financial and demand pressures for local authorities, particularly in
relation to Adult and Children’s social care and homelessness, have been well
rehearsed and subject to much scrutiny. Since 2010, local authorities including
Birmingham have been working hard to drive efficiencies, develop innovative
solutions to transform service delivery and preventative approaches, whilst at the
same time managing and responding to increasing demands from the most
vulnerable in society, both adults and children. Any assessment of funding needs for
councils must take account of these challenges facing local authorities and provide a
sustainable solution to address not just current issues, but also forecasted
pressures.

4.1.23 The Spending Review will issue a control total for local government to spend
against, and then the funding formula will allocate this control total. Local
government provides demand based services and therefore if demand and unit costs
are increasing, then the system has to acknowledge this and make the necessary
provisions. Ultimately, Government needs to allocate resources based on the need
within the system and current statutory responsibilities, or change the statutory
responsibilities of local government.

4.1.24 Other factors to be considered include:

- The spending review needs to provide additional resources to all of local
government. Local authorities have been disproportionately affected by the
cuts in public expenditure that have come about through austerity. The
distribution methodology adopted should be equitable and take account of
Council Tax raising abilities. The system should ensure that those who have
the greatest levels of need are provided with resources as soon as possible.

- Projections in terms of population increase and the different strata within that
data (over 65, learning disability, deprivation, etc). Deprivation is regularly
used as a proxy for protected characteristics, in particular areas with high levels of disabilities and ethnicity. These authorities would then have to make proportionately greater reductions in the services that they provide than those receiving the additional funding. These reductions could affect residents with disabilities. It is also worth noting that many Local Authorities with low tax bases and high needs have an above average number of residents sharing the protected characteristic of race.

- Statistics on adult social care population, including requests for care and support being present on a daily basis

- 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.

4.1.25 Birmingham supports the wider sector in advocating for a Spending Review settlement that delivers an increase in funding for all of local government. In order to ensure that the new fair funding review formula can cope with growing cost pressures, the quantum of funding available to local government must not only provide assistance with the transition to the new funding model but must also be sufficiently large to fund the well documented unfunded cost pressures currently being borne by the local government sector. The Government must take account of the costs of delivering statutory duties and provide additional resource for local government to provide further locally required services, in particular those that increase prevention and reduce costs elsewhere in the public sector system.

4.1.26 Along with the confirmation of the expenditure level for local authorities, there needs to be an ongoing conversation on a national level need to recalibrate citizen expectation towards more realistic provision. There is a need for the national conversation to extend the need for greater self-care, perhaps supported by technology, as a crucial means for reducing demand on health and social care services. Birmingham has started the journey in transforming in this way for Adult Social Care, where the focus is on preventative measures, self-help and independence, without reliance on public funding.

4.1.27 An alternative approach would be to allocate funding based on an outcomes based approach. Historic and current proposed approach is around departmental allocations, so a silo approach to the distribution of resources. The reviews to date have focuses exclusively on monies to be spent, whilst giving little attention to impact on citizens. If there is a a more strategic approach and a focus on outcomes, then there is potential for better utilisation of scarce resources for the greater good of citizens and allows partnership working across departments. Health and social care, or police resources and mental health services are two examples where such an outcomes based approach may work well as there are shared objectives. This approach would be consistent with the Public Sector Reform discussions held previously.

April 2019