Executive Summary

Somerset County Council would like to see:

- An early decision on the next Spending Review plans and for a switch to be a rolling period i.e. no cliff edges;
- Forward looking basis for allocation not backwards as previously;
- One-off funding such as BCF/iBCF added into base budgets
- Funding to recognise needs
- Sustainable and fair methodologies for distribution (recognising the previous disparity between the South East / London and the South West).

Introduction

1. Somerset County Council recognises the need for a review of the effectiveness of the existing funding mechanism for local government – the current regime is out of date, regressive and has become increasingly flawed with the many layers of ‘interim’ and ‘one-off’ funding added over time, especially since the start of austerity. Indeed whilst it is noticeable that the Ministry itself acknowledged the need for reform in 2016 with the launch of the business Rate Retention (BRR) and Fair funding Review (FFR) programmes, it is deeply disappointing that there remains a high level of uncertainty about proposed changes less than a year ahead of implementation and it is not clear that the Ministry understands the urgency for reform nor what the key drivers of demands or the pressures are for services.

2. An important consequence of this layering of change is that it has more deeply embedded past disparities meaning there are vastly different financial situations across the country. This disparity is set to be continued unless the Ministry recognises that there is no universal link between the economic health of an area and the demand placed on core statutory services (e.g. Adult and Children’s social care) and even where links do exist locally, there is no direct correlation between the rate of growth in demand for services and increases in business rates.

3. The significant forecast funding gap demands a sustainable, fair distribution method for funding local authorities going forwards that is not dependent upon the regressive council tax and a business tax that is unrelated to service demands. Nor must it be perpetuating past disparities but rather be forward looking, recognising and linked to local needs.

4. In the climate of reducing funding, the now normal trend for mid / late December Provisional Settlement announcements has repeatedly made it extremely challenging to set sensible, robust and prudent budgets for the following financial year(s). As well as being late, figures emerge from different departments are different times making it a challenge to see all funding until very late.

5. This together with the level of one-off funding in the current allocations (e.g. BCF and iBCF), and the absence of a Spending Review (SR) into 2020/21 only exacerbates the position. It is imperative that Government confirm their SR proposals (especially in relation to one-off funding) as early as possible. It can easily take 6 months to affect significant service transformation / reduction with the need for statutory public consultation with stakeholders / staff ahead of implementation.

6. Without fairness and timeliness, authorities are not able to effectively plan and therefore ensure the best outcomes for vulnerable people and the best use of funding available delivering the best value for money.
7. Further points especially pertinent in Somerset are:

- **Don’t delay FFR and BRR reform beyond 2020/21** but act swiftly to set out the new proposed approach so authorities can effectively plan their longer-term finances (i.e. before the summer recess);
- If the Spending Review and or BRR/FFR are likely to be delayed it would be very helpful to **confirm the alternative arrangements as soon as possible** – especially the one-off funding and the status of the business rate pilot;
- **Recognise the previous unfair funding in favour of London and the South East and remember the South West has suffered in much the same way as many northern councils** (e.g. through the added costs of delivering services in rural areas and relatively slow economic growth);
- Recognise that an **Authority’s funding comes from multiple government departments** (as well as other sources such as council tax, fees and charges) which in the past has meant it is not until all departments have declared their allocations (usually well into Jan / Feb immediately prior to the start of a financial year) that any council can see the total impact on its area. The current core spending power only focuses on a proportion of an Authority’s total spending.

**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?**

8. Whilst the intention of the introduction of a 4-year settlement from 2016/17 to help give authorities some stability and predictability in future funding was welcomed, the approach was flawed because:

- In practice, the Government’s assumptions around levels of Council Tax increases has changed and there have been numerous late funding announcements that have meant an Authority’s figures vary considerably from the original settlement figures, making effective medium-term planning yet more challenging;
- **The nature of cuts to local government funding since austerity began did not recognise local service demands, pressures or resilience** – this continued in the 4-year settlement. The consequence was that as funding fell for a rural Authority like Somerset with an ageing population, demand in our biggest budget area, adults social care, was rising – a double whammy;
- The approach to CSP (as well as FFR) has felt divisive across the sector, encouraging unhealthy factions of local authorities arguing why cuts are crueler to them. **A focus on future need, not past allocations**, would remove the need for this and encourage fairness across the country.

9. The fact that austerity has produced such a wide range of experiences across the country, from those that have had to deplete reserves to very low levels, despite council tax increases compared to others that have not increased council tax and added to reserves, **must tell the government something about fairness**. Similarly, an Authority’s approach to charging has become a post code lottery that reflects the relative pressures different areas of local government are under, rather than any active service delivery decisions. These differences are not explained solely (if at all) by the difference between efficient and inefficient authorities. The problem is more fundamental. The Ministry is already well aware of the differences in council tax across the country as well as the relative incomes. Together these exacerbate any unfairness.
10. The introduction of the ASC precept in 2016/17 is a clear example of a short-term fix that has resulted in unfairness across the sector. All counties did levy the extra charge, out of necessity, yet the effect it has in different areas of the country varies hugely: 1% council tax in Somerset is around £2.4m whilst in other areas it exceeds £7m – and parts of Somerset are home to the oldest population in the country and therefore highest demand for services. The doesn’t even factor in the additional costs of delivering services in rural areas. Nor does it factor in the wide disparity of funding per head in different parts of the country (eg inner London at £437 per head, compared to CCN counties at £153 per head). Together these factors are pushing some services to breaking point.

11. The overall gap in quantum of funding for core services to vulnerable people (already at £3.1bn for 2019/20 and set to rise to £8bn by 2024/25) cannot be ignored in the next Spending Review or fixed with one-off “sticking plasters” only. Sustainable solutions are essential to enable effective long-term planning and to avoid real people suffering unnecessarily.

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?

12. There are several ways in which existing funding arrangements are not fit for purpose:
   - there is no link between increasing business rates and increased demand for services.
   - Council Tax is a regressive tax since its level bears no resemblance to property values and the current number of bands is prohibitively narrow.
   - The Government’s aim for councils to become sustainably self-sufficient will fail if the first two points above remain in place.
   - Some redistribution is inevitable since affordability and wealth varies across the country – it must be done fairly.
   - A huge proportion of funding in 2019/20 is one-off with no certainty beyond March 2020. In Somerset £36m of a net Adult Social Care budget of £133m is one-off. The figure is £1.16bn nationally. How can prudent budgets be set with this uncertainty?
   - The concept of core spending power omits to factor a considerable proportion of funding from other government departments and sources (e.g. fees and charges) and increasingly reflects the effect of local decision making (i.e. council tax), yet it is used as the government’s main statistic for indicating publicly an increase in local government funding. This feels disingenuous at best.
   - The absence of a spending review beyond 2019/20 alongside the expectation, without clarity over FFR and BRR, makes future planning extraordinarily difficult. In future a rolling multi-year settlement would help mitigate the cliff edge being faced for 2020/21.
   - Most spending commitments by authorities are for multiple years and cannot be reduced if funding isn’t continued (e.g. care packages) since they deliver services to the vulnerable and or at least require statutory consultation before changes (which can easily take 6 months to conduct properly).
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.

13. It is imperative that the future funding methodology be based on assessment of future needs, not past spending. This would avoid embedding past funding disparities. Additionally, the actual spending in authorities now does not necessarily reflect needs of residents, but rather reflects the ability of an Authority to sustain services. For example, Somerset has had to reduce its level of bus subsidies yet as a rural county, there is a significant need for public transport that is currently unmet need. Any new methodology must be based on the services that should be available for certain client groups, not what is available.

14. It is of concern that it is now looking possible that there may be a delay to the Spending Review and even the Fair Funding Review due to other Parliamentary priorities. Any delay would further compound the uncertainty of one-off funding announcements in recent years and, given the vulnerable client groups affected, is not acceptable. The sector needs a sustainable solution to the services under the most pressure – Adults, Children’s Social Care and SEND.

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.

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

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

17. Examples of additional significant grant funding include:
   - DfE – DSG, Pupil Premium and Universal Infant School Meals Grant Funding
   - Public Health Grant
   - New Homes Bonus
   - PFI Grants
   - Grants from the Skills Funding Agency for adult and community learning
   - 6th form funding from the Education Funding Agency.

April 2019