Salford City Council welcomes the opportunity to set out its views to the Committee and would be happy to provide further information on any issues highlighted below. Our comments are set out within the four areas listed in your request for information.

a) 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.

To provide context for our response it would be useful to set out some key headlines. Salford is the 22nd most deprived local authority in England with 70% of the population living in areas classified as highly deprived and disadvantaged. During the period of austerity it has suffered more than many other areas with reductions in core funding of 53% since 2010/11 leading to savings and cuts of £211m during this period. A basic premise that underlies our response is that the quantum of funding for local government has been, and continues to be, insufficient. Local government has been hit harder than protected areas of spending such as health. Furthermore, the impact of austerity has been felt to varying degrees across local government with deprived areas seeing the greatest reduction in core spending power.

In recent years the government introduced new burdens funding to meet the increased costs of service provision due to changes in policy or the introduction of new initiatives. In many cases this is insufficient to meet the costs of the associated service provision, for example support to care leavers to age 25.

Given the backdrop of austerity and funding reductions one of the biggest challenges for local authorities is the timing of funding announcements. Salford took up the option of a multi-year settlement which helps with longer term planning, however, there are substantial areas of the council’s services which are dependent upon short term funding announced outside the main settlement for example social care grants and winter pressures funding. In addition, the government has not committed funding to the improved better care fund and troubled families programmes post 2019/20 and has also indicated a further review of the New Homes Bonus which would have a significant impact on the council’s funding position. The inevitable outcome is that local authorities medium to long term planning is based on various assumptions which may not be accurate but which will form the basis of savings targets which will have a real impact upon the local community.

For 2020/21, the potential changes in funding levels affecting local authorities from the spending review, fair funding, end of short term funding, business rates reset and retention changes makes it very difficult to plan in a managed and sustainable way when local authorities might not have any indication of the impact of these changes until late 2019. The inevitable risk is that local authorities might face a funding cliff edge with no time to prepare for 2020/21.

Salford, with a number of other authorities, contributed to the National Audit Office report on financial sustainability of local authorities in 2018. Its conclusions included:-
- The sector has done well to manage substantial funding reductions since 2010/11 but financial pressure has increased markedly since the previous study (in 2014)
- Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced.
- The financial future for many authorities is less certain than in 2014.
- The current trajectory for local government is towards a narrow core offer increasing centred on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources.

This erosion of the scope of local government undermines its key role in the local community and economy and limits the role it can play in areas such as

In practical terms the complexity of the current system overlaid by changes in funding makes it very difficult for local authorities to understand the impact of various cost drivers and the lack of transparency impacts upon the ability of the wider community to make a judgement on the local authority’s use of resources.

b)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.

Core funding
As highlighted in the response above we have concerns around the inadequate quantum of funding, the allocation of resources and transparency of the current system.

Local Funding
A core principle is that there will always be a need for some mechanism of equalisation reflecting the ability of local authorities to generate income and its level of need. For example, within Salford over 50% of properties fall within council tax band A, with approximately 87.5% falling within bands A-C, impacting our ability to generate additional income through increased council tax charges. Unsurprisingly our level of need is high linked to deprivation levels within the city which drive up the demand for services.

It should be noted that the Council has invested heavily in regeneration through its capital programme which ultimately increases business rates and council tax, however, there is a continuing cost associated with this investment which must be met from the annual revenue budget.

Council Tax
Councils should have some flexibility of funding options and fewer restraints on their flexibility in setting council tax to reflect local needs and policy decisions. However, while recognising this need for flexibility, the ability to raise local taxes is not an equitable solution to a national funding shortfall. It benefits councils with higher tax bases, not those with higher need. Furthermore, it forces councils to raise tax levels above inflation in order to support essential services. Additional funding should be raised through the general taxation system, not a regressive council tax. The impact of council tax increases, either generally or through social care funding precepts, falls disproportionately on the poorest members of our community.

Business Rates
Salford is part of the Greater Manchester 100% business rates pilot and strongly supports the retention of the pilot beyond 2019/20 until the national rollout is achieved. This would provide a better insight into the sustainability of 100% retention over a longer time period, including a business rates reset.
As a general point, there is a risk around the sustainability of business rates given issues such as the health of the retail sector, the adoption of avoidance tactics by some businesses and the potential for rates loss in areas such as the health care sector.

c) 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.

Salford provided a detailed response to the government's recent fair funding consultation setting out a number of serious concerns with the proposed assessment of needs. These include:-

- The timing of the introduction of the revised model is extremely tight. In many areas the consultation document highlights where further work is required to develop the model, for example in the identification of relevant cost drivers. This raises concern in two areas – firstly it raises questions as to the government's understanding of service delivery, cost drivers and impacts of funding decisions. Secondly, it is difficult to see how the model can be developed in time for authorities to budget effectively for any changes in funding levels in 2020/21. Inevitably this means that there will need to be sufficient transitional arrangements to ensure that authorities are not exposed to financial volatility.

- In considering how a future model will operate, the interaction with other funding outside the settlement needs to be clarified. In delaying the publication of the social care green paper the government is increasing uncertainty in the face of unprecedented demand for the services that we provide and ultimately increasing the risks around financial sustainability in 20/21 onwards.

- It is difficult to understand the exclusion of deprivation as a factor to be applied to the foundation formula. There is a strong, pervasive and well documented link between deprivation and the demand for, and cost of delivering, services by authorities. We believe the impact of deprivation is such that it should be included in all elements of the formula.

- The profile given to rurality within the area cost adjustment (compared to deprivation) is concerning and we believe is not supported by a robust evidence base.

- Homelessness should not be included within the foundation formula. Whilst the consultation document argues for its inclusion on the basis that funding is made available outside of the settlement, experience suggests that this funding is short term and makes it difficult for local authorities to plan. The priority of homelessness in terms of its financial and social impact would suggest that it should be a specific formula within the model.

- Simplicity is not the most important objective for the system. Transparency is important but the overriding objective must be a fairness in distributing resources to meet needs-led demand. A fair, complex (but transparent) system is overwhelmingly preferable to a simple system that will be unable to distribute resources fairly.
d) 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.

The key features should be:

- A substantial increase in the overall quantum of core funding to address needs-led demand
- A multi-year approach to give a greater degree of certainty to financial planning. Settlements should be aligned with spending review periods to enable a more sustainable approach to local government funding.
- A continuation of Greater Manchester’s successful 100% business rate retention pilot scheme to enable its testing against 75% schemes and through a reset
- Transitional arrangements to mitigate the impacts of change in the system to avoid financial cliff edges. This applies to the settlement but also to specific funding schemes such as new homes bonus and business rates resets.
- Sufficient funding for key pressure areas of adults and children’s social care. Following the further delay of the social care green paper clarity is needed as to how social care will be funded on a sustainable basis.
- Recognition of the key factors driving spend, particularly the impact that deprivation has in all service areas.
- Enabling local authorities to fulfil their role in regeneration of the local area by incentivising capital investment.
- Enabling local authorities to increase the availability of housing at social rent levels. Current obstacles include right to buy provisions for properties held within the Housing Revenue Account.
- Enabling investment in prevention (for example in public health and children’s services) which should lead to greater cost avoidance.
- A joined up approach between government departments aimed at gaining a better understanding of inter-dependencies and avoiding unwanted outcomes of savings in one area having an impact in other areas.

We are happy to provide further comment or evidence on any issues included within our response

April 2019