The Council is pleased to have the opportunity to provide written evidence to the Inquiry into Local Government Funding and the 2019 Spending Review.

The terms of reference are considered in the Councils submission to the inquiry with key messages summarised and recommendations provided.

Key Messages

- Austerity cuts have been more severe for more deprived councils with lower tax bases.
- Along side this the business rates retention system and new homes bonus scheme, both incentive based, both benefitting wealthier authorities, became an increasing part of overall funding for Councils. This resulted in smaller level of available funding to distribute towards needs formulae.
- Funding formulae and resource equalisation no longer adequately reflect the needs of areas with higher deprivation, complex demography and higher demands and with less ability to raise council tax income as it did prior to austerity cuts. This needs to be remedied as part of the ‘Fair Funding Review’.
- Effective service delivery at local level is hampered by centralisation of contracts and lack of local autonomy for some public sector partners. Greater devolution to local level would enable more joined up services and increased efficiency in spend.
- There needs to be a fair and sustainable cash injection of local government funding for essential service delivery and to deal with increasing unfunded pressures, currently forecast by the LGA to be at £5.8bn by 2020 plus £1.3bn to stabilise the adult social care provider market, total £7.1bn.
- Local government needs certainty of longer-term funding, rather than reactive windfall funding such as the improved better care fund, winter resilience funding and the new social care grant. This will avoid unnecessary cuts being made due to the uncertainty of future funding settlements.
- Pressures on council funding have forced reductions in non-statutory preventative services, risking increasing longer term costs for the public sector as a whole.
- Business rates retention needs to recognise that local areas have different growth potential, and that it is not appropriate for councils to manage appeals risk. Funding growth should incentivise all Councils equally, with Councils only bearing risks within their control.

ToR1: 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?

Past changes to local government funding in England
1.1. The burden of funding cuts was proven to have fallen disproportionately harder on areas with higher deprivation and a lower council tax base. This has had a higher detrimental effect on services in the poorest areas than in other parts of the country which have relatively lower service needs and the ability to collect higher levels of local income. This is because a lower proportion of their overall funding would have come through formulae funding.

1.2. Despite measures to more fairly balance the overall cuts with a fairer calculation of core spending power and measure to improve the position for councils with additional funding for social care, there is still an overall disparity of cuts across the four-year settlement period and cumulatively over the 9-year period of austerity.

1.3. The Adult Social Care flexibility whilst it has been welcome is one example that benefits wealthier councils with a higher taxbase due to its application. It raises different levels of funding around the country and doesn’t necessarily reflect the need of the council in terms of requirement to spend on adult social care.

1.4. Over the last five years the council has had to contend with above inflation levels of cost pressures particularly in relation to adult and children’s social care but also in other services. At the same time, local government continues to face cuts in other funding streams such as the Education Services Grant, Public Health, administration grants for Housing Benefit and Local Council Tax Support.

Previous Parliament

1.5. The North East and Newcastle have been disproportionately affected by the funding cuts over this period. In the last parliament, on a like for like area basis the Council lost £311 (27.3%) per head of population compared to the England average of £185 (18.8%) whilst many other local authorities in more affluent parts of the country in contrast, faced much lower funding cuts, for example, Wokingham lost only £41 (5.9%) per head of population over the same period.

1.6. Contributing factors to the high level of costs for the City are in relation to the demography of the population, the high level of poverty in the City, draw of the city for the services on offer in the centre, high level of day and evening population with in commuters for work, visitors and the night time economy and having a high student population.

1.7. We also have a high proportion of dwellings in low council tax bands and very few in the higher bands and so it is much harder for the council to raise income through council tax to fund services than for other councils that have a broader distribution of dwellings across council tax bands.

Current Parliament

1.8. Councils that have already experienced the highest overall cuts from Core Spending power are now experiencing lower increases due to having lower growth in business rates and a lower Council Tax base that is not fully equalised. Government forecast increased levels of income from council tax

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1 After allocating fire and county change over districts or districts over counties to provide a like for like change comparison. NCC individual authority cut £301, Wokingham £37.
2 After removing ringfenced public health and NHS funding for social care
and business rates in the current year and in 2019/20. However, there remains disparity in the level of changes in funding around the country. That is even allowing for the additional £2bn adult social care funding, use of the additional council tax flexibility, more recent funding for social care and removing negative RSG. Some Councils will still experience cuts over the four-year settlement whilst others will receive significant increase in funding.

1.9. Newcastle is forecast to experience a much lower increase in funding on a like for like area basis over the four years to 2019-20 of £9 per head of population. In contrast, the England average is expected to increase by £31 (3.8%) over the 4 years, higher than our own Council by £22 per person. In stark contrast Wokingham for example is forecast to have an additional £80 per person.

1.10. We understand that councils will be able to keep higher levels of growth over the period of a reset under business rates retention. However, there remains unfairness in a system that passes on lower cuts through austerity to councils with low needs and low deprivation and now the same council has much higher increases. It should be a requirement that this unfairness is not replicated in the fair funding review. The following heatmap highlights the cumulative impact of council cuts since 2010-11.

Lessons to be learned from the current financial situation of councils and how this has affected their ability to deliver services

1.11. The disparity in funding change has led to the erosion of the relative needs formula used to distribute council funding based upon need and the resource adjustment to take account of ability to raise local resource.

1.12. Funding has been redistributed to such an extent that some councils with much lower levels of need, low deprivation, lower demand and greater ability to raise local resource, now have a higher core spending. Other councils identified as having much higher needs linked, deprivation, demography,
demand and are less able to raise local resource have considerably lower core spending power. The formula therefore, no longer adequately reflects the needs of areas with higher deprivation and higher demands and shows as being a much flatter £ per head of population in Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>ENGLAND</th>
<th>Middlesbrough UA</th>
<th>Wokingham UA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>(£* 500.00_)</td>
<td>(£* 1,500.00_)</td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
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<td>2012-13</td>
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<td>2014-15</td>
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<td>2018-19</td>
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<tr>
<td>2019-20</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.13. The fair funding review is currently replicating this disparity by choosing a base year of spend after significant cuts have had to be made. It shows a much flatter structure, as a measure for need rather than reflecting a more realistic measure of actual need that is required as highlighted by independent commentators like the LGA and the NAO.

1.14. In 2014/15 Government stated that the objective of the Local Government Finance Settlement was to: “Limit as far as possible the impact of reductions in spending on the most vulnerable in society and those regions heavily dependent on the public sector”. Using base years of spend that doesn’t fully reflect need to provide services and ability to raise local resource to design new formulae will do just that.

1.15. Decisions on top slices have also led to cuts that might have been avoided. Large top slices were taken from council’s formula funding to fund the New Homes Bonus and Safety Net, with any unused amount refunded 12 months later. If an alternative option had been used this could have avoided unnecessary council cuts.

Financial challenges for local authorities in providing non-statutory services

1.16. The current financial situation is that councils now have much lower levels of funding but have increasing demands and increased complexity. Therefore, the funding settlement allocated to councils no longer reflects service need. These factors will cause a widening divide in the level of service provision putting the most vulnerable people at risk. Any further cuts will be unsustainable for councils and put them at real risk of financial failure or not providing certain services or the same quality of services. CIPFA’s resilience index estimates that 15% of councils are now “at risk of financial instability”.

1.17. Many non-statutory, pro-active and preventative services have had to be cut much deeper to continue to fund statutory services and areas with increasing pressure.

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3 Average net current expenditure for 2015-16, 2016-17 & 2017-18
1.18. Back in 2010-11 spend on adult and children’s social care services accounted for 52.5% and 53% for Newcastle and England respectively. In 2016-17 this has increased to 64.2% and 62.3%. This demonstrates the move away from spending on non-statutory service areas towards statutory service areas in response to constrained budgets, much higher demand and unfunded cost pressures such as introduction of the National Living Wage recently from Government policy.

<table>
<thead>
<tr>
<th>Change in Service Expenditure £’000s</th>
<th>2010-11</th>
<th>% of Total</th>
<th>2016-17</th>
<th>% of Total</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle upon Tyne</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Adult Social Care</td>
<td>£ 100,264</td>
<td>31.6%</td>
<td>£ 87,706</td>
<td>40.6%</td>
<td>-£ 12,558</td>
</tr>
<tr>
<td>Children Social Care</td>
<td>£ 66,286</td>
<td>20.9%</td>
<td>£ 51,081</td>
<td>23.6%</td>
<td>-£ 15,205</td>
</tr>
<tr>
<td>Other Services</td>
<td>£ 150,604</td>
<td>47.5%</td>
<td>£ 77,463</td>
<td>35.8%</td>
<td>-£ 73,141</td>
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<tr>
<td>TOTAL</td>
<td>£ 317,154</td>
<td></td>
<td>£ 216,250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>England</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult Social Care</td>
<td>£ 15,846,940</td>
<td>36.2%</td>
<td>£ 14,913,970</td>
<td>39.4%</td>
<td>-£ 932,970</td>
</tr>
<tr>
<td>Children Social Care</td>
<td>£ 7,318,522</td>
<td>16.7%</td>
<td>£ 8,664,800</td>
<td>22.9%</td>
<td>£ 1,346,278</td>
</tr>
<tr>
<td>Other Services</td>
<td>£ 20,561,658</td>
<td>47.0%</td>
<td>£ 14,267,931</td>
<td>37.7%</td>
<td>-£ 6,293,727</td>
</tr>
<tr>
<td>TOTAL</td>
<td>£ 43,727,120</td>
<td></td>
<td>£ 37,846,701</td>
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</tr>
</tbody>
</table>

1.19. Adult and Children’s social care remain the highest areas of spend for Councils and of the overall level of spend now account for a higher proportion of that spend.

1.20. However, there are many areas of preventative support taking place across councils nationally that are not classed as statutory but that are critical in supporting troubled families and aiming to prevent children from presenting as more costly statutory interventions further down the line. Examples include sure start, early years services, youth services, improving school attendance, mental health difficulties, encouraging families to use local services, keeping children with families, preventing crime involvement, benefits help, drug and alcohol support and addressing parenting issues. When Councils are having to make difficult funding decisions when faced with further funding cuts and increased demand Councils have little choice but to maintain statutory services and sacrifice preventative services. This reduces the impact of an holistic approach and risk increasing costs across the health, welfare and criminal justice systems in the longer-term.

**Housing Incentive (New Homes Bonus)**

1.21. The first five years of austerity had an increasing emphasis on growing housing stock by providing an incentive that was funded by cutting local government core service funding. This contributed to higher needs cuts in deprived areas and redistributed the funding to areas that could easily grow housing but that in many cases had much lower needs. The scheme takes no account of demography, demand (other than additional homes) and the cost in delivering needs-based services such as adult and children social care yet will have stripped out £6.5 billion from needs formula funding by 2019/20.

1.22. Our own Council has been a net loser from the scheme despite high levels of housing growth. This year despite reward of more than £6.1 million from the scheme the top slice to fund it will be £6.8 million resulting in a net loss in funding of £0.7 million.

**Budget Planning**
Delivering excellent services with diminishing budgets requires extensive planning to codesign new approaches with partners and residents, test and consult, and then commission effectively. Councils are beginning this process now for savings which are likely to be needed in 2022/2023. Capital projects generally also have at least a 2 year lead in time to enable effective design and procurement, and can often be essential to delivery of revenue savings.

Uncertainty around the quantum and nature of the local government settlement from 2020/21 onwards makes effective long-term planning more challenging. One-off funding announced only a few months before the start of the financial year in which it must be used will have less impact than longer term planned funding. Financially responsible councils and their auditors will not rely on such one-off funding being provided in subsequent years, and will therefore plan service savings as needed. Delayed and ad hoc settlements therefore hinder budget planning, and can in some cases lead to cuts that might have been avoided if the same funding had been announced further ahead.

**Recommendations:**

- There needs to be a sustainable cash injection of funding into the overall quantum of funding for Local Government. Local Government pressures are forecast by the LGA to be at £5.8bn by 2020 plus £1.3bn to stabilise the adult social care provider market, total £7.1bn. Local Government urgently needs a Fair and sustainable level of funding from Government.
- Restore the needs formulae that has been eroded due to austerity cuts in the Fair Funding review to adequately reflect drivers of spend to their true level including deprivation, poverty, density and for the consequences of increased day/night population. The base years used in the fair funding consultation do not fully reflect actual need.
- Full Council Tax Resource Equalisation is essential in a review of relative resources.
- There needs to recognition of the value of preventative services and the reduced costs downstream.
- Longer term planned funding settlements with earlier announcement of any changes to allow enough time for councils to build this into the budget setting process are required.
- The New Homes Bonus scheme should end to enable the funding to be returned to councils based on assessed need to deal with the extreme pressures facing Councils including social care. Housing need should compete alongside other essential service provision rather than supersede them.

**2. ToR 2: 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?**

**Financial Sustainability**

2.1. We have highlighted the difficulty in funding preventative and non-statutory spend due to the level of cuts faced by local government over the last 9 years...
and the current and future funding gap forecast by the LGA and further evidenced by the National Audit Office. With little funding left for preventative services and some councils having difficulty providing the statutory minimum level of service there will be little scope to deliver further cuts. Any further cuts in funding will be unsustainable and likely to put local councils at real risk of financial failure and put vulnerable people at risk – put simply there isn’t enough funding in the system to meet the increasing demands and pressures facing councils.

2.2. The interdependencies between departments should be recognised. Savings identified in one area of government can cause associated costs elsewhere for example the cost to Councils resulting from welfare reform.

Effectiveness of current local government funding system

2.3. The local government sector has responded effectively to the challenge of austerity, maintaining high quality services in the face of greater budget reductions than any other area of public service delivery. However, effective and person-centred delivery at local level can be hampered by the different approaches and accountabilities of the different public sector partners working in a place. For example:

- Nationally commissioned contracts can lead to sub-optimal outcomes at local level, as well as exposing the public purse to the risk of failure by a small number of providers. For example, nationally commissioned contracts may not take account of local need or local transport connections.

- In relation to the national contracts for employment and skills interventions. Many national employment support services include training opportunities for young people only, but local demographics in the North East show that young people are the group that currently have the highest skill levels with greater training need amongst older workers or other groups not defined by age such as those in low pay employment. Locally-led commissioning, in consultation with local strategic partners offers solutions that respond more effectively to the nuances of an area often invisible to national agencies.

a) In regard to the National Diabetes Prevention Programme (NDPP), the programme has now run in the city for 9 months during which some patients in the (very deprived) west end of the city have been directed to provision in West Moor, North Tyneside, as the closest venue. This is an hour’s travel, involving a Metro and a bus ride, at a cost of £5.80 return. Of the sessions currently offered, none are out of working hours.

b) Effective joint working and innovation with nationally-led partners such as DWP, Health and Education rely on Whitehall decision-makers agreeing new approaches. Moving to a place-based approach in which local representatives of national bodies are empowered to work with partners to develop solutions that take account of local circumstance and need could free up greater innovation and efficiency. A key feature of devolved funding and spend is the ability of local commissioners to work with communities and organisations that can deliver services close to those who need them and in such a way as to address inequalities in wellbeing, health and access.
With other councils, we have argued vigorously and persistently for local rather than national commissioning of the DPP. Despite this, contracts have been placed with a handful of national providers rather than building upon local provision and assets. This has the double penalty of relying upon providers with no local base and connections upon which to build, and of diverting elsewhere funds that could support local public and third sector providers. The latter issue matters particularly in the face of austerity – securing local delivery contracts can sustain local organisations and deliver social value well beyond the specifics of an NHS programme.

As a preventive programme, an alternative approach would have been to incorporate the DPP into local authority public health responsibilities, allowing both a more rapid and effective implementation, together with significant additional social value.

2.4. Young people and adults with complex and multiple needs, such as NEET, young people or adults at risk of homelessness, are likely to interact with a range of public services. Ensuring these services can work together at local level can both improve services and identify where preventative work can be targeted to yield the most significant savings to the different services involved. A local settlement applying across partners, with clear shared outcomes and local accountability, would improve services and enable greater efficiency in delivery. Continuing to devolve powers, funding and responsibility to local areas will help achieve this.

Funding sources

2.5. There is a legislative obligation for Central Government to return all Business Rates to Councils whether that is through business rates retention or otherwise. Business rates retention is intended to incentivise councils to drive local growth but risks providing greater reward for high tax base, easy to grow areas with other areas having very little or no reward at all. Moreover, the amount of business rates received from a particular business does not accurately reflect its economic contribution or the priorities of local industrial strategies e.g. retail properties generally have a higher rateable value than manufacturing sites. Hence business rates retention could lead to councils facing conflicts between a short-term imperative to maximise business rates and a longer-term, more strategic approach of seeking to grow high value industries. More could be done to incentivise or pump prime hard to grow areas and industries.

2.6. Business Rates Retention also exposes local authorities to the risk of factors beyond council control such as appeals and central government policy changes. A fundamental part of the system of business rates retention is “risk and reward”. However, the significant number and size of appeals £2.6 billion at March 2017 has resulted in high levels of risk and volatility for Councils leading to high value provisions having to be made to limit the associated risks. Another risk for councils that can result in lower council income when government policy decisions reduce business rates liability for example with early years establishments in Scotland and Wales.

2.7. Not all authorities can benefit from alternative income sources such as fees and charges like parking income or self-funding for social care to the same extent as others. For many councils this funding constitutes a much smaller proportion of overall income for councils, although for some this income can
be significant. Wealthier councils will be able to collect more income for social care from residents from means testing. Those same councils will be able to raise more income through the adult social care flexibility from having a higher tax base – this doesn’t necessarily reflect a higher need for social care than more deprived, lower tax base councils.

2.8. One issue worth noting is that councils are expected to be more commercial and increase local income but at the same time are restrained from borrowing for commercial activities.

2.9. In general, given that the tax system as a whole is progressive, increasing local revenue retention risks exacerbating existing inequalities in wealth and growth. This effect could be mitigated if local revenue retention was combined with greater devolution. Retaining revenues over larger devolved areas such as combined authorities should reduce inequalities between areas in the amount of revenue raised, particularly if combined with greater devolution of powers and funding to drive economic growth.

**Recommendations:**

A centralised solution for business rate appeals needs to be decided upon and implemented quickly.

Councils should be compensated for any loss of income due to central government policy decisions that reduce business rates liability.

Funding for social care should be equalised to match need.

Further borrowing flexibilities could be provided so as not to limit commercial activity.

Equalisation or a levy on excessive gains from a local income with funding redistributed towards service need would

The fair funding review should take the opportunity to look at the interdependencies of decisions made in one area of government and the associated costs across other areas.

3. **ToR3: 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?**

**Assessing Local Government Funding Needs**

3.1. It’s not clear that funding needs are assessed other than in terms of returns of one year budgeted and actual spend which doesn’t provide longer term forecast data and is limited to the level of available funding not necessarily funding to meet increased demand and pressures.

3.2. In a speech given by Sir Amyas Morse of the National Audit Office (NAO) to The Strand Group at King’s College he said “I have not seen any evidence-based effort to reconcile funding to local needs. In my view, the policy objectives for local government and the local government statutory duties have not been properly weighted against potential efficiency savings”.

**Adult Social Care services**
3.3. We have already highlighted that deprivation is a major driver of cost and links to poverty. It has also been proven with the health service funding formulae that deprivation as well as demographic factors are an essential driver of costs and this is the same for social care services. There are more people in deprived areas that have lower living standards, use more local government services, present to care services much younger, with more complex issues, have a lower life expectancy and those that do reach older age are less able to fund their own continuing care (self-funders).

3.4. We are also aware that there is a high prevalence of carers in deprived areas with limited access to work and those that do are often low paid or have zero hours contracts.

3.5. Cities are also experiencing unprecedented mental health issues and associated costs and would emphasise that this should be picked up in any driver of cost used for working age adult social care.

3.6. Fewer people in deprived areas can fund their own care as they have less savings and less capital assets, in particular lower value homes.

3.7. The following chart highlights the contrasting property values comparing Blackpool the most deprived upper tier council with Wokingham with the least deprived upper tier council. Blackpool has 89.7% of its properties in bands A to C, whilst Wokingham only has 19.2% in bands A to C and 25.1% in the highest three bands compared to Blackpool’s 1.2%.

![Comparison of proportion of properties across low and high Council Tax Bands](chart.png)

**Children’s Social Care Increased Pressures**

3.8. Alongside funding cuts the main areas of pressure in children’s social care in Newcastle relate to the pressures facing families in the city. Issues relating to deprivation, increasing child poverty, cuts in family income from reduced working age benefits and issues including mental health. It impacts on the number of looked after children, family support services, fostering, safeguarding and social work assessments. We know that Newcastle is not unique in facing these pressures, but despite positive actions by the council and our partners we do not anticipate these pressures diminishing in the
coming years. Newcastle like councils across the country are experiencing pressures in two main areas:

- Demand for statutory services – assessment and on-going support. The number of children meeting statutory thresholds and requiring an assessment at our front door has increased from ~55 per week in 2013/14 to more than 95 per week at the end of 2017/18. In Newcastle, 35% of cases that are assessed require ongoing support – in short, increased demand at the front door drives pressure throughout the system.

- Newcastle is experiencing significant increases in LAC numbers. At end of October 2018 the number of children in care stood at 635 (110.3 per 10,000), this is an increase of 62 (10.8%) from April 18 and 112 (21.4%) from April 17. Our thresholds for taking children and young people in to care have been tested by the courts and Ofsted during this period and found to be appropriate.

3.9. The most recently available national data at October 2017 shows that 10 of the 12 North East councils again saw high increases in rates, our own council had an increase of 6 LAC per 10,000, with Hartlepool and Middlesbrough having the highest increases with 24 and 17 per 10,000 population.

3.10. There is a clear link between deprivation and the number and therefore consequential cost of looked after children, as shown in the following chart. Over this period Blackpool, (most deprived upper tier council) has always had a significantly higher proportion of LAC per 10,000 population compared to the least deprived upper tier council Wokingham. This has increased over the period of austerity for Blackpool by 68% from 110 per 10,000 to 185 per 10,000.

3.11. Some of the indicators used to indicate poverty refer to welfare benefits that have now been superseded by Universal Credit, therefore we have concerns that some of the data used might be out-of-date or subject to some local variation from region to region.
Preventative Support

3.12. There are many areas of preventative support taking place across councils nationally that are not classed as statutory but that are critical in supporting troubled families and aiming to prevent children from presenting as statutory interventions further down the line. Examples include improving school attendance, mental health difficulties, encouraging families to use local services, keeping children with families, preventing crime involvement, benefits help, drug and alcohol support and addressing parenting issues. When Councils are having to make difficult funding decisions when faced with further funding cuts and increased demand Councils have little choice but to maintain statutory services and sacrifice preventative services. Prevention needs to be included within the overall funding package for Councils as it is false economy not to fund prevention.

Deprivation, poverty and welfare reform

3.13. There appears to be a real lack of government understanding or analysis of how demand has changed resulting from reforms to the welfare system. The consequences of absolute poverty in deprived areas, families living in poverty and close to homelessness as well as presenting as homeless and the resulting increased costs to councils. Costs in trying to keep people in their own homes such as advice, mediation and financial support as well as the costs of dealing with homelessness like temporary accommodation and rough sleeping. Whilst councils were already dealing with these issues, the volume and quantum of costs has significantly increased without the necessary level of funding to match it.

3.14. Deprivation and poverty are real drivers of council costs. Workless families are more likely to live in deprived neighbourhoods and are more likely to require more council support, including to avoid becoming homeless. The latest DWP ‘living in poverty’, statistics\(^4\) highlight that there are more than 4.1m children living in poverty and there has been an increase in the poorest households living in ‘absolute poverty’\(^5\) by 200,000 to 3.7m in 2017-18. Children in the North East are twice as likely as those in the south or east to live in long term workless households. It has been shown that workless households have significantly poorer outcomes across health, attainment and employment. Alison Garnham, chief executive of Child Poverty Action Group, said “Investing in children is the most significant investment we as a nation can make in our future. We share a moral responsibility to protect children from hardship and enable them to fulfil their potential, but deep social security cuts for working and non-working families are restricting the life chances of a whole generation.”

Public Health

3.15. Local authority public health plays an important role in reducing demand for adult social care, the national health service and in other services. It is disappointing to see continued cuts in this fund.

\(^4\) DWP Statistics published 28.3.19
\(^5\) Absolute poverty, those living on less than 60% of the national median income as of 2010-11 excluding housing costs.
3.16. The public health ring-fenced allocation is currently set to continue until March 2019. Its value has been reduced year on year in line with cuts announced in the last spending review, resulting in a reduction over 4 years of almost 15%. This is widely regarded as counter-productive in the face of efforts to improve health and reduce costs through prevention, compromising the ability of councils to work with the NHS on this agenda. Although services have been protected to the greatest possible extent through efficiency savings, further reductions would result in loss of provision widely regarded as essential in areas such as early years’ provision, sexual health and in tackling drugs and alcohol misuse. Public health interventions are recognised to be extremely cost-effective, though the realisation of savings and health benefits and may be spread over many years. Ensuring preservation of at least the present level of funding will help to keep some of the pressure off the health service and adult social care by avoiding or delaying more costly intervention and treatment downstream. Additional investment with sustained funding in real terms would pay dividends in terms of improved wellbeing and population health.

3.17. In response to the NHS plan to tackle major killer conditions the LGA said about the plan that it’s “goals could only be fully realised if councils were properly funded to deliver social care and public health services.” Cllr Ian Hudspeth, Chairman of the LGA’s Community Wellbeing Board, said: “To help the NHS make its extra funding go further and alleviate the pressures on the health service, it is essential that the Government plugs the £3.6 billion funding gap facing adult social care by 2025 and reverses the £600 million in reductions to councils’ public health grants.”

Concessionary Travel

3.18. Concessionary Travel needs to be fully funded. There is currently a huge funding gap in the National Concessionary Travel Scheme from the funding that is received to provide this service and the costs associated with it in Local Government.

3.19. Continued underfunding could have an adverse outcome for Transport Authorities in areas with high concessionary usage and to pensioners in these areas who are on low incomes and without access to cars and other users of public transport services, who are also on low incomes and reliant on public transport.

3.20. Other adverse impacts would include the ability to achieve transport objectives in terms of reducing congestion and air pollution with potential consequential implications on public health.

Recommendations:

Government should incentivise public sector partners to work together to achieve joint outcomes at the level of place, including through greater devolution of powers and funding.

Government need to analyse and better understand the impact that the welfare system is having in deprived areas for families living in absolute poverty. It needs to properly assess the increased burden to councils of supporting struggling families to
prevent them becoming homeless in the first place, in addition to dealing with the more costly outcome once people and families become homelessness.

We support the LGA and SIGOMAs view that the fair funding system should drop its proposals to include homelessness in the foundation block and design a separate formula. The formula should include deprivation/poverty as a key driver as it’s a proven driver of cost in this service. There should be funding for and recognition of preventative spending that reduces more costly presentations and not just funding for the cost of homelessness presentations. This would not then penalise councils for doing a good job in this area.

Treasury should stay aware of and work with other areas of government and adjust Departmental funding for policy decisions that have the effect of reducing funding or increasing costs to councils. For example, the NHS plan will have asks of Councils but as this is not co-ordinated across government the necessary funding for Councils is not always provided and any new burdens should come with the full level of new burdens funding.

Funding levels for local government should take account of the contribution which the sector’s prevention activities make to reducing cost burdens on the wider public sector and welfare system.

4. ToR 4: The approach that 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. The Department for Housing Communities and Local Government Committee have themselves highlighted the issue of funding councils when they stated in the report on Business Rate Retention that “local government should first be allowed to use the additional revenue gained from 75 per retention to fund existing cost pressures” and “Given the increasingly difficult financial position of many local authorities, we strongly recommend that, before Revenue Support Grant, Rural Services Delivery Grant, GLA Transport Grant and Public Health Grant are rolled in, local government should be allowed to use the additional revenue gained from 75 per cent retention to fund existing cost pressures”.

4.2. A ‘Fair Funding Review’ and fundamental principle of a designing fair formulae must be to ensure equal opportunity of access to ‘support’ for residents requiring that need in their area. In arriving at funding formulae, the outcome should not result in individual councils receiving less funding than they need deliver services.

4.3. For the review of relative needs and resources to deliver a fair outcome there needs to be full resource equalisation and formulas that sufficiently reflect the drivers of need and demand to deliver services. That means the impact of deprivation, poverty, density and additional population must be reflected within formulas including services proposed for inclusion within the foundation formula. Failure to account for these factors will not only be ‘unfair’ but will almost certainly result in an increase in the poverty gap and health inequalities.
4.4. The Association of Director’s of Children’s Services (ADCS) are concerned that funding of essential services will be based on a council’s ability to raise funds from business rates and council tax and that those councils in more deprived areas with higher service requirements will be able to raise the least amount of funding. They highlight the danger that under such a system these authorities will see their funding gap grow. They highlight that a funding formula must address the fundamental challenges faced by children’s services to deliver a long-term sustainable funding model to tackle the problems faced early by children and families. Funding must “resource universalist, preventative, children’s services” and “invest in early help services” to avoid putting further pressures on more costly intensive services. They have also highlighted the requirement to fund the £2bn funding gap identified by the LGA without which a new funding system will just be a redistribution of not enough. ACDA also highlight the correlation between deprivation and poverty and welfare interventions and highlight research by Bywaters et al 2017 that suggest where children live is a central factor of inequality. That those living in the most deprived areas are more likely to be on a child protection plan or become looked after than in wealthier areas. New legislation and policy initiatives in relation to children’s services have resulted in new burdens for councils with some new funding but insufficient to fully fund the cost of the increased burdens.

4.5. The removal these drivers to a flatter distribution of resident population to achieve simplicity, with little justification for doing so, is not a fair approach in terms of allocating funding and will significantly redistribute funding away from need. This approach will benefit more prosperous councils with lower service needs and disadvantage councils with higher levels of poverty and much higher service needs. Many of the same councils that have received the highest levels of cuts over the period of austerity and generally experience the lowest levels of growth.

4.6. The foundation formula, as proposed, will underestimate the funding requirements of councils with higher needs and more complex characteristics. That includes areas of high concentrations of deprivation, high student populations, environmental and waste challenges, demand from non-resident day and night time populations, health inequalities, social challenges including crime and anti-social behaviour and linked to poverty lack of ability to pay for paid services.

4.7. If the government continues to use the base years it has chosen to model need for non-statutory services within the foundation block it will underestimate the impact of deprivation on these services. Services put into this service block were cut by much more as they had more non-statutory functions included. Therefore, the indicators for these services were suppressed. If Government were to use the base year for individual services within the foundation services before the austerity cuts were applied, it is more likely to be representative of the drivers for these services.

4.8. Concessionary Travel has a separately identified and transparent Funding Formula and not subsumed within the foundation formula of upper tier services. It has been clearly established that need and cost are not simply driven by resident population for this service and evidence in support of this

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has been provide to the Parliament Transport Select Committee in oral and written evidence on 30th January and 4th February 2019.

4.9. In recent years there has been a greater emphasis on providing additional funding to rural areas with little proven evidence of need. Rural councils have argued for additional funding for unmet need and higher costs in rural areas including journey times. On the back of this many of these councils have received substantial levels of additional funding over the last four-years including additional rural funding and transition funding. SIGOMA have calculated that Shire Districts (predominantly rural with spend predominantly on foundation services) were collectively allocated £197 million (37%) above their baseline total funding from Business Rate retention, whilst Mets (predominantly urban and with upper and lower tier responsibilities) collectively allocated £114 million, (just 4%) above their baseline funding. SIGOMA has identified that even after the addition of all the extra funding in rural areas there is “such a weak correlation of rurality to spend on foundation services” there appears to be little evidence to underpin the proposal for additional rurality in formula and area cost adjustment other than representations by the rural services interest group.

4.10. In deprived areas the life expectancy is much lower than it is in wealthier areas. People present to social services at a much younger age with more complex issues. If the formula indicator age for this cohort is set too high then it just won’t capture this need, and deprived councils will not be allocated sufficient funding to deal with the associated support.

4.11. Some areas will naturally and automatically grow their economies whilst for others growth is difficult. The reality is that growth can be much lower and slower and for these councils there needs to be much higher levels of investment for potentially a smaller return.

4.12. Currently the retail sector is slowing down with many high street business closures recently announced. There is also increase in online business that isn’t captured in BRR that is likely to have an impact on the level of business rates income collected to be retained for funding services.

**Recommendations:**

The approach to a ‘Fair Funding Formula’ should not be looked at in isolation. In developing formulae and allocating funding, it is logical to assume that current and future pressures faced by councils should be reflected within formulae and future spending rounds and settlements.

We must stress how significant drivers for services that are currently included in services proposed for the foundation block are retained and disagree with that a same level of funding per head of population is appropriate.

A measure of taxbase should be included in the adult social care formula to allow for the lack of self-funders in deprived areas. Also, carers should be picked up as an indicator for working age and older adults.

The cost of unprecedented mental health costs should be picked up in the driver of cost for working age adult social care.

Concessionary travel and homelessness services should be kept separate from the foundation formula and have their own specific formula that better represents the drivers of cost associated with delivering these services.
Council Tax resource equalisation is an essential component of a fair funding system and should be fully taken account of. That includes the associated cost of council tax support and lack of income raised pertaining to high numbers of students. Recognition that some councils have a much lower tax base and this is likely to remain the case, certainly in the short and medium term.

Funding growth is different across the country and the business rates retention system should incentivise all councils not just high taxbase councils whose base automatically or easily grows. There should be incentives for harder to grow areas like the North East, seaside towns and industries like manufacturing.

Preventative support needs to be included within the overall funding package for Councils

There should be an evidential basis for providing additional funding to councils.

Clarity on the transition arrangements and authority exemplifications should be provided at an early stage.

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