Local Government Finance and the 2019 Spending Review inquiry

1. In response to the inquiry into local government finance, Peterborough City Council would like to share views on matters which we strongly believe should be given due consideration, in arriving at an appropriate and effective funding formula. The council feels that a new funding formula should be developed with a view to enabling all councils to continue delivering vital local services to communities and promote housing and economic growth.

2. Peterborough has a population of around 196,000 residents, which is rising all the time due to the city's ambitious growth aspirations and a higher than average birth rate.

3. Since 2010 the council has made significant savings and begun to operate far more commercially to generate income. We currently bring in £72million every year through investments, sharing of services, fees and charges and other means and we have plans in place to become even more commercial.

4. However, as demand increases for vital services such as adult social care and children’s services and central government continues to reduce funding across local government, the financial challenges to this council continue and become more acute.

5. In the past five years the fastest growing financial pressure on the city council has been the unprecedented rise in homeless households. In addition, we have more older people than ever before requiring care, more complex care, we are having to use more expensive residential care for children in care because of a shortage of foster family placements and a 39% increase in pupils with Education, Health and Care plans in Peterborough’s mainstream schools.

6. Parts of Peterborough are some of the most deprived areas in the country. The life expectancy of people in Peterborough is lower than average and rates of premature deaths from cardiovascular disease are higher, as are teenage pregnancies and hospital admissions for self-harm.

7. The city is growing faster than many other parts of the country with significant levels of growth and new housing experienced in the past ten years. This of course has its benefits, but brings massive cost and service delivery pressures too.

8. The following sections outline specifics where Peterborough is experiencing significant growth, financial pressure and has concerns regarding the future of service delivery. We believe that the current funding envelope for Councils is not sustainable and has not kept up with the increasing population, soaring demand for services and complexity of needs presented.
9. The Council is currently maintaining its overall financial position, despite the reducing grant and additional demand being experienced. The Council has put an action plan in place to ensure future financial sustainability, this has been achieved in part by rationalisation of the capital programme and service based efficiency action plans. However it has needed to use significant one off resources to balance the position, and provide the Council with additional time for wider savings and commercial initiatives to be developed, which is not sustainable in the medium term.

**Adult Social Care**

10. There continues to be significant year on year growth in the demand for adult social care services and the associated cost. This places significant pressure on our budgets, despite one off grants via the Improved Better Care Fund (IBCF).

11. The adult population (65+) in Peterborough continues to increase but this alone doesn’t reflect the true demand we are experiencing. The population is growing older and people are requiring more complex care, which in turn is significantly increasing our costs of care. For example, the number of people we provide paid for care packages has increased by 402 between 2015/16 and 2018/19 - rising from 3,468 to 3,870.

12. Likewise, attendances, admissions and discharges from hospital have all increased, presenting higher needs and more expensive care within the community. Peterborough Hospital (NWAFT) have experienced an 11% year on year increase in attendances alone.

13. We continue to work with our partners and have used the IBCF, amongst other things, to jointly mitigate demand through investment in preventive and early intervention services. We have actively worked with communities, health and the voluntary sector. This has had a positive impact on reducing and delaying need - but given the level of demand for services, falls short of what’s required to create sustainable services.

14. Our providers are also under significant pressure, resulting in additional costs. Examples include the National Living Wage increases, pension pressures, continued strain around compliance from regulators and most notably, workforce availability and cost. Despite increases in funding, they are telling us that they can no longer meet the needs of our citizens on current arrangements and these costs and pressures are now being felt by ourselves. Examples include increases in the cost of nursing provision by around 25%.

15. The funding via IBCF has been very welcome and has been used to offset some pressures and allow investment in services that have prevented and delayed need and therefore cost. However, this funding is short term and proves insufficient to provide sustainable adult social care services. We need and would welcome certainty around funding and at levels that allow us to invest in meeting the needs of our most vulnerable citizens and maintaining the health, well-being and independence of our older, growing population.

**Children’s Social Care**
16. There has been a sustained year-on-year increase in numbers of children in care nationally over the past few years, with the rate of increase accelerating in the 2016/17 and 2017/18 financial years.

17. Numbers of children in care in Peterborough have increased over this period, but less quickly than the national rate or in the ten most similar authorities [our statistical neighbours]. This is in part because we have adopted the Family Safeguarding model of practice.

18. Numbers in care in Peterborough are currently hovering at around the 375 mark. If we were looking after a similar number as the average of our statistical neighbours in 2017/18, we would have 430 children and young people in care. Assuming these additional children and young people were placed with independent agency foster carers, the additional placement costs would be in excess of £2.5m per annum. There would also be considerable other additional costs including costs of additional staff, as well as other expenses associated with providing care to children and young people.

19. The national rise in numbers in care has had a significant impact on the market for placements. There are too few in-house foster families and independent agency foster carers can afford to be much more selective in terms of the children and young people to whom they will offer a placement. This means that young people who would have been found an agency foster placement two years ago are now increasingly likely to be placed in residential care. This is bad for them, and it is also extremely expensive, with the rising demand for residential care also seeing steep increases in unit costs. A fairly standard residential placement is typically £200,000 per annum per young person, with specialist placements costing twice as much or more.

20. We have needed to use more residential placements over the past two years than previously. Even though the additional numbers are low, with an increase of around 10 such placements, this has resulted in significantly increased costs. This increase, together with the relatively small increase in overall numbers, has resulted in the council needing to identify an additional £3.9M in 2018/19 to meet additional placement costs, at a time when government funding has reduced significantly.

21. Our comparatively low numbers in care mean that we have no realistic options to reduce costs by reducing numbers in care. We also have a fast growing population of children and young people in Peterborough, which means that the risks are that numbers in care will continue to grow, even if the rate of children in care per 10,000 population remains the same. If we continue to look after the same rate of children as we do now, for example, numbers in care will have risen to 440 by 2021 because of the increase in the overall population of children and young people in the city.

22. Government funding for the Troubled Families programme is due to come to an end in 2020. In Peterborough, this grant is the main source of funding for our early help services. The grant is only payable where local authorities can evidence sustained improvements for families and children. Were this or equivalent funding not to continue post 2020, the impact for children and families would be devastating. There would be almost no funding
available to provide early help and support and to prevent family difficulties increasing and severely impact the social mobility and prevention agendas in children’s services.

23. Without such targeted early help services, it would only be a matter of time before the impact would be seen in terms of higher numbers of children on child protection plans and in care.

24. It is therefore a matter of urgency that funding for children’s services is placed on a sustainable footing. Failure to do so puts higher numbers of children and young people at risk of experiencing harm, deprives them of the ability to achieve their potential, with serious implications for the rest of their lives within the wider community.

Homelessness

25. In the past five years the fastest growing financial pressure on the council has been the unprecedented rise in homeless households in the city. Peterborough is not alone - similar increases are being seen across the UK.

26. Prior to 2016/17 the number of households coming to us for assistance because they were homeless or threatened with homelessness was around 1,100 each year. That shot up to 1,586 in 2016/17 and has peaked at over 2,300 households in 2018/19. Although we had anticipated an increase as a result of the Homelessness Reduction Act (HRA), the level exceeds that which the HRA pilot areas experienced by a considerable margin.

27. We do of course welcome the HRA and are seeing significant benefits through being able to work with households threatened with homelessness at a much earlier point. However, the significant pace of population growth in recent years that precedes the Act has compounded the gap we now have between supply of affordable rented accommodation and the demand from households in need.

28. In response, this council has made significant investments to increase the supply of both temporary accommodation and permanent general needs housing through a range of measures. These include the creation of a joint venture with our main registered social landlord Cross Keys Homes to develop new housing sites, incentive schemes for private landlords and owners of empty properties to enter into long-lease arrangements, and the purchase of around 50 properties from the open market. We have also invested heavily into our housing needs service to ensure our preventative work is making the impact it needs to; we know that without this we would have around 550 households in temporary accommodation today, rather than the 350 we currently have.

29. We are very grateful for the additional Government funding that has been granted to Peterborough to support our continued efforts to reduce homelessness, and for the support and expert guidance provided by the MHCLG HAST team which has recognised the significant distance we have travelled in the past year or so to tackle homelessness in Peterborough.
30. We are also tackling rough sleeping and experiencing a steady decrease year on year in the number of rough sleepers in Peterborough. However, our main cohort comprises deeply entrenched rough sleepers with complex and multi-layered issues, and, as with many other towns and cities, it is proving problematic to move this group into services and accommodation. We have partnered with the Light Project Peterborough and Peterborough Cathedral to launch daytime support arrangements for rough sleepers alongside our expanded night-time shelter provision, and, on a recent visit to the city by the Archbishop of Canterbury, he commented that this is one of the best rough sleeping interventions he has seen nationally.

31. The primary reason that households are presenting to us as homeless or threatened with homelessness remains the serving of section 21 notices by private sector landlords - around one third of all presentations fall into this category. We welcome the announcement made by Housing Secretary James Brokenshire on 15 April 2019 that private landlords will be held to greater account over the use of Section 21s, offering tenants greater protection.

32. Private sector landlords describe a number of factors that lead them to using section 21s to secure vacant possession, including changes to tax arrangements and their significant concern about taking tenants in receipt of Universal Credit and/or Housing Benefit. Unless the use of section 21 is stemmed, given the scale and significance of the private rented sector in Peterborough, homelessness will continue to be a major factor limiting the economic growth of our city and the health and wellbeing of our population.

33. To improve the standards of our private sector housing so that it can provide a safe and credible alternative to social housing, we introduced a selective licensing scheme just over two years ago. The scheme, although highly complex to secure, has delivered very positive results with over 7,000 properties now licensed and significant and evidenced improvements being made. We hope to consider an expansion to the existing scheme, although are anxious about the current review of licensing that we understand is being undertaken by government. We very much hope that selective licensing and other schemes that control and improve the quality of private rented housing continue to be available to councils, and further that the processes to secure such schemes are simplified given the hugely positive benefits that we have experienced in Peterborough.

Education and Special Educational Needs (SEND)

34. We continue to experience a growing demand in special educational needs (SEN). In the past four years we have experienced:

- A 39% increase in pupils with Education, Health and Care Plan (EHCP) in Peterborough’s mainstream schools.
- A 15% increase in our special school population in addition to an increase in the complexity of need.
- A 29% increase in pupils attending the Pupil Referral Unit.
- A 60% increase in post-16 pupils with EHCPs in further education.
35. Whilst the pressure is currently being managed through savings generated by reducing the number of pupils in high cost specialist provision, the ability to continue generating these savings is limited. The additional investment in the high needs block, funding for those with special educational needs, announced in December 2018 will help to manage some of these pressures but continued investment is needed to match future levels of demand.

36. Costs of providing Home to School transport have been increasing due to demography and other factors. In the past four years we have experienced:

- A 13.6% increase in the number of SEN pupils transported
- A 13.4% increase in the number of Mainstream pupils transported
- Home to School Transport costs increasing by 25%

37. In addition, Peterborough faces significant pressure in providing enough school places as a result of extensive new housing developments and demographic changes resulting from increased birth rates. The mainstream school population in Peterborough has increased from 28,257 pupils on roll in January 2006 to 36,759 in October 2018, an increase of 30.09%.

38. Despite this increasing demand for schools places, efficiencies announced to the free schools programme has created uncertainty in future grant funding available to build new schools. Unsuccessful bids to create new schools place further pressures on the council’s finances which are already constrained.

39. The council has invested some £150m of its own financial resources in the last 5-10 years to create additional pupil capacity into mainstream primary and secondary school provision and address the growth in pupil population arising from birth rate increase and immigration into the city. This council investment has been required to supplement shortfalls in Basic Need Funding. Council investment is now no longer available, so without sufficient funding from government, we run the risk of not being able to fulfil our statutory duty to provide sufficient school places.

Public Health

40. Public health is an issue of significant concern in Peterborough, which sits in the third most deprived decile of upper tier local authorities, and the second most deprived decile of lower tier authorities. Life expectancy is significantly below the national average, while deaths from preventable causes, premature deaths from cardiovascular disease, teenage pregnancies, hospital admissions for self-harm, late diagnosis of HIV, incidence of TB, and cancer screening rates are also significantly worse than average. In the early years rates of dental decay are high and ‘school readiness’ – or the proportion of children who have reached a good stage of development by the end of reception year is in the worst 10% nationally.

41. Despite this, in 2013 when public health grants were first allocated to local authorities, based on spending returns to the Department of Health from pre-existing primary care
trusts, the public health grant to Peterborough City Council was 27% (or £2.8M) below its ‘fair funding’ target calculated through the national Advisory Committee on Resource Allocation (ACRA) formula. Some uplifts in public health funding were received in 2013/14 and 2014/15, but Peterborough’s public health allocation remained 20% (or £2.3M) below its ACRA funding target by the end of 2014/15.

42. A further allocation for children’s public health services (age 0-5) was transferred from the NHS to local authorities in October 2015, along with contracts for health visiting services. Despite the poor outcomes described earlier for Peterborough’s children in the early years, the allocation to Peterborough was 23% (or £0.9M) below the national average allocation per child aged 0-4. We have identified retrospectively that some of this ‘gap’ was due to underfunding of the transferred contract – in 2015 the health visiting service cost approximately £0.5M more to deliver than the amount of funding transferred.

43. Since 2015, public health grant allocations to local authorities have been reduced by a blanket percentage cut each year – the same for all local authorities whether their funding is above or below their ACRA fair funding target. This blanket reduction took no account of the significant public health problems in Peterborough, the underfunding of the public health grant allocation by over 20% compared to ACRA fair funding target, or of population growth.

44. The combined effect of the original low public health allocation, further blanket cuts in funding, and significant population growth has made the delivery of good quality public health services to meet need in Peterborough almost untenable. Contractors delivering public health programmes commissioned by the council have dedicated staff, who do their best in challenging circumstances and innovate to reduce costs. However, during the past 18 months, the majority of these contractors have provided evidence that they are losing money on their local public health contracts in Peterborough.

45. In order to maintain financial viability of the services, we have had to close sexual health clinics, limit the number of patients who can access long-term reversible forms of contraception via their GP and have faced significant challenges with re-pricing of medications in drug and alcohol services. We are currently unable to agree a final contract with our 0-19 public health programmes provider, as they are not prepared to continue the built in deficit in funding transferred from the NHS. We also cannot provide targeted public health and outreach interventions for diverse ethnic communities, people living in high deprivation neighbourhoods and vulnerable groups such as rough sleepers – which would be ‘the norm’ in many other local authority areas with similar needs.

46. The root cause of these issues in Peterborough is the failure to move local authority public health grant allocations towards their ‘ACRA’ fair funding target, during a four year period of cash reductions in the grant. This has resulted in inadequate public health funding to meet local needs. We therefore strongly recommend that the ACRA formula for public health allocations, together with up to date population estimates, is used to allocate fair public health funding to local authorities. In particular, we recommend that there is rapid movement towards the ACRA funding target for local authorities such as Peterborough which are significantly underfunded, and at risk of failing to meet local public health needs.
Housing and Growth

47. Peterborough consistently delivers high levels of new housing, averaging over 900 per year for the last decade, with peaks of 1,342 new homes in 2015 and 1,203 new homes in 2017. Whilst the planning system enables some of the pressures of accommodating these new homes to be mitigated (through Community Infrastructure Levy, section 106 and New Homes Bonus payments), the planning system cannot mitigate against all the additional pressures on public services that the new residents create.

48. The city council is committed to further supporting housing growth, but is concerned that government financial support does not sufficiently reward (or arguably even acknowledge) rapidly growing cities such as Peterborough. The recent adjustments to the New Homes Bonus (NHB) scheme is clearly a disincentive to pursue housing growth, contrary to the national policy objective of boosting the supply of housing. Whilst the council is not necessarily saying the NHB scheme should revert to its original basis, government needs to recognise that rapidly growing places should be appropriately financially assisted to integrate such growth into the community, and ensure public service can cope, from day one, of the new homes being occupied.

49. It is evident from the work we have done in setting our Community Infrastructure Levy (CIL) rate, that new development would be rendered unviable if we sought sufficient contributions to cover the true infrastructure implications of the growth. Given the council’s housing requirement, each time we grant planning permission we are doing so in the knowledge that we are placing an additional financial burden on the council which increasingly cannot be met i.e the provision of school places and affordable housing. We are at the point where the position is unsustainable. The refusal of planning permission on the grounds of the impacts of development not being mitigated is not really an option because the council will be found guilty by the government of failing to deliver housing in its area. In addition, development in areas not earmarked for development is likely to come forward and be approved at appeal but still without suitably mitigating its impact on infrastructure.

50. Failure to support growing places could have the unintended consequence of decisions being taken locally to stall growth, on the basis that the local authority cannot, financially, accommodate such growth. Such a consequence is not in the national interest, but the financial consequences of growth must be considered by local authorities in the round, and if growth cannot be afforded, it must not be pursued.

Highways

51. Since 2013 the revenue budgets allocated to highways have decreased from £11.149m to £7.641m equating to a reduction of 31%. During this time the number of miles travelled on all Peterborough roads has increased from 1.08 billion to 1.25 billion in 2017 representing a 15% increase compared to an 8% increase across Great Britain (source data: https://roadtraffic.dft.gov.uk/summary). Due to the fact that Peterborough is one of the UK’s
fastest growing cities we are also responsible for an ever growing number of assets that is currently made up of 931km of road, 1,634km of foot and cycle ways, 360 highway structures and 26,000 street lights.

Council Tax

52. Council tax has now become the council’s primary source of income, with its government grant diminishing, and an increasing emphasis on raising local taxes to deliver services. In Peterborough council tax now raises 52% of the council’s key funding, in comparison to 32% in 2013/14, with government grant reducing from 47% to just 16% over the same period. The change in the council’s funding streams from 2013/14 to 2019/20 is demonstrated in the following diagram.

53. There has been a significant shift towards localised taxation, but despite devolution and local powers being one of the focuses of the government, councils still have little scope to increase taxes beyond the level at which a local and expensive referendum would need to be called. Increasing council tax income can only be achieved through the increase in the number of houses and the band D rate and Peterborough has taken all options available to it within existing legislation, including increasing council tax by the maximum charge within the referendum limits.

54. Peterborough is an area of significant growth as mentioned in the Housing Growth section of this letter. There have been 5,032 new homes built in Peterborough over the past five years,(Source Data- live tables on net supply of housing- table 122) with continuing development
across the city. The council is also actively pursuing all ways it can bring empty homes back into use to increase our tax base and provide affordable housing solutions for families.

55. Even with the above actions in place this still does not generate enough income for the council to create future financial sustainability. Greater flexibility needs to be granted to local authorities to allow them to raise the required levels of income. The council recognises it would be a huge risk to remove the cap entirely, given the implications of this demonstrated in 2003/04, when some increases reached 12%. However it is felt that greater flexibility could be given to those authorities in the lowest quartile or below average for band D rate.

56. This would then allow those councils to move to a more level platform with others across the country. Despite having significant housing and population growth our band D rate is one of the lowest, ranking 8th out of 56 unitary authorities (source data, Band D Council Tax live tables), and we have been in this position for 2018/19 and 2019/20 rates, and lower in previous years.

Business rates

57. Peterborough is an area which has seen great economic and business growth with new businesses being attracted to the area, Graph 1 demonstrates this in comparison to the east region and the UK. The Gross Value Added (GVA) has also increased by 21.9% over the period 2010-2016, which was higher than the UK level, which stood at 18.6%.

Graph 1: Net enterprise creation, as a proportion of active enterprises

58. The council has promoted business growth within the city and has demonstrated this by becoming the anchor tenant at Fletton Quays, kick-starting the development of the area. The £120million regeneration of the Southbank will include offices, a hotel, carpark, restaurant and leisure facilities along with 450 apartments.
59. For these examples the council feels that being able to benefit directly from the growth in business rates income is important to the local area. Ensuring the funding is used within the area would allow the council to support businesses by ensuring the infrastructure and transport is in place for effective operation, housing is available to attract the workforce to the area and education is exceptional to ensure young people and adults are equipped with the skills to carry out a variety of roles. New business start-ups also help to reduce unemployment within the area, reducing the reliance on Housing benefit and Universal Credit.

60. In recent years the government has shown support to local businesses by extending the Small Business Rates Relief (SBRR), capping inflation at CPI instead of RPI, additional support for public houses and also the introduction of funding for a localised discretionary relief scheme. There are still businesses which are struggling with the costs of staying in business, and this is evidenced by the loss of vibrancy in high streets across the country.

61. The council welcomes the continued support for businesses, however like many others we have become increasingly reliant on this income stream, even more so with the introduction of the 75% business rates retention scheme from 2020/21. The council asks the government to take stock of the implications these decisions could have on this vital revenue stream. We appeal to you to continue compensating councils through section 31 grants. This would then minimise the fluctuations and uncertainty in funding the council would otherwise face.

62. The current system has become very complex, and although the changes outlined in the former paragraphs are welcomed, these changes have been vast and frequent. Without being put into the appropriate billing legislation these have left the system with a number of layers and complexities. These changes mean the council has to often unpick the changes or piece them together from the limited information published within consultations - an unwelcome distraction when time could be better invested in forecasting the rates growth. The council would like to see a new system being implemented with improved guidance, actual working practise examples and a simpler methodology. Funding announcements which include a change to the system need to be more timely. Councils use a select number of systems for business rates (NNDR), and often the software developers are left with minimal time to reflect the changes within the system, test and implement the software update, ready to complete the NNDR1 returns. As noted within Review of Local Government Finance Governance and Processes, funding announcements need to be more timely.

63. The council is concerned by the level of funding which has been put in to the pilot schemes in 2018/19 (£870m per IFS) and again in 2019/20 (£900m estimated). It is felt that the level of pilots awarded could have been less, freeing the additional funding to be allocated across the sector to address other increasing service needs. The allocation of the schemes also seems unfair, and in some instances has been used to address a cry for help by certain authorities, such as Surrey in 2018/19, and Northamptonshire in 2019/20, therefore demonstrating that the government has used this as a mechanism to put additional funding in to certain authorities.
64. Had the funding invested in these pilots been distributed across all local authorities, it could have allowed the council to address some of the national issues sooner such as homelessness, adults and children’s social care, pot-holes and improving the state of the roads, special educational needs and the requirement to build and upgrade schools to address growing pupil numbers. All of these are national issues which have been a consistent theme in the media over recent years.

Other general funding principles

65. The council has significant concerns over the uncertainty of funding levels for 2020/21, and is incredibly nervous about forecasting future funding levels within our Medium Term Financial Plan. The expected settlement announcement in the Autumn will be too late for the council to develop plans in time to ensure delivery of services is within the new funding envelope. It would be useful to have an indication of this much earlier in the year. It should be noted that this seems to be an increasing theme, with local government funding announcements becoming later, an issue which was also documented earlier this year in the Review of Local Government Finance Governance and Processes, carried out by Andrew Hudson.

66. On the same theme, in recent years the government has chosen to announce one off funding and council tax thresholds, incredibly late, on occasions even as late as February for implementation within the council’s budget, effective from 1 April. This is hindering the ability of councils to financially plan and make more informed decisions. It would be preferable if funding announcements and policy changes could be announced much earlier in the year, allowing time to plan and incorporate within the council’s budget setting timetables effectively.

67. The multi-year settlement has been useful in providing the council with some degree of certainty and stability, however this has been somewhat undermined by the amount of one off funding announcements. Where these have been welcomed, in response to the unprecedented demand facing services such as social care, it is also a sign that the funding envelope for councils is no longer sustainable and has not kept up with the increasing population, soaring demand for services and complexity of needs presented.

68. The council would like to see a multi-year settlement as part of the Spending Review, but over a shorter term, with a simplified and transparent formula which would allow councils to make funding estimates with greater accuracy, as the formula is updated to reflect information as this becomes available. This will also ensure that funding is in sync, as far as possible with service demand.

69. As part of the Fairer Funding Review, government should make clear what expectations are for the level of service delivery and priorities. Should councils be aspiring to provide a minimal suite of standard, basic services or is there an exceptional level of quality to be expected? Guidance on what constitutes a statutory service and to what level that should be, would be welcome. As seen recently some councils have made changes to reduce or stop services, not entirely classed as statutory and have been challenged and lost through judicial review. The recent example being the review of library services in
Northamptonshire. This creates nervousness amongst councils, and makes it very unclear what boundaries and expectations there are for service delivery in the future.

70. The council was also surprised to see the level of additional funding for 2018/19 announced in March 2019, allowing councils only weeks to spend the money. Additional funding is always welcome, and needed, however this raises concerns around the allocation of funding within the department. Especially concerning was that some of the money came with a strict spending criteria, required a detailed return and included a threat of withholding future grants if there was non-compliance. There was upset at the way this was communicated across the sector and this was documented in the following article.

Conclusion

71. Peterborough City Council hopes its views prove useful to the committee, and demonstrate the operational and financial challenges facing councils, and how we would like to see some of these addressed within future funding arrangements.

April 2019