Written evidence submitted by Hertfordshire County Council [FSR 085]

General Comments

Hertfordshire County Council (HCC) supports the position taken by the County Councils Network and the Society of County Treasurers. In common with them, we wish to draw attention to the following points (below, a-i).

a. Most of all, HCC supports the key point embedded in the CCN and SCT responses, which is that there needs to be an overall increase in the ‘quantum’ of funding available to local government. This must then be coupled with a fairer distribution of that funding.

b. HCC endorses the view that the current situation enables MHCLG to consider a wide range of related issues, including council tax flexibility, business rates retention, fees and charges flexibilities, New Homes Bonus and other ‘incentive’ payment systems, and fiscal devolution opportunities.

c. HCC considers that MHCLG currently continues to look backwards when considering the funding of current and future services, meaning that cuts have been made with insufficient regard to forecast future demand. The result of this has been to create an uneven landscape of eligibility, fee structures and service levels across local authorities. HCC supports the position taken by the SCT, in calling for a change in the construction of baseline funding allocations, from ones which model the “what is” to ones that look to the future and model “what ought to be”. This approach would get to the core of what services need to look like and help understand the drivers of demand.

d. HCC endorses the view that the current arrangement of local government funding has disadvantages County Councils, whilst creating advantages for other council classes. This has led to the creation of a high level of ‘unmet needs’ in county council areas. (Since 2010, HCC has experienced input cost and price pressure of around 2.1% per year and population growth pressures of around 1.0% per year, so basic budgetary pressure equating to c.3% per year. In contrast, the council’s net revenue spending has grown by just 0.5% per year. The funding gap has been met through a combination of increased efficiency, and reduction in the scale and scope of services provided. However, it is becoming increasingly difficult to avoid the level of unmet need implied by this, and we are starting to see an increase in demand for crisis level support and intervention, especially in social care services.)

e. Counties are yet to be convinced of the link between growth in demand for services and growth in business rates (income).

f. Local authorities reliant on an income stream which doesn’t track demand and council tax, which is widely accepted as being a regressive tax.

g. The LGA are predicting a huge gap in funding. This needs sustainable, well targeted, funding – not one-off allocations using the old methodologies.

h. The 4-year settlement for local government, which ends in March 2020, offered certainty of funding, but it was set against a backdrop of disappearing revenue support grant. Without further indications about future settlements local authorities are finding it high-on impossible to plan, finding ourselves caught between a legal duty to break-even and an unfunded level of demand that we must provide for.

i. HCC wishes to emphasise as part of our response that there has been a rapid decline in the confidence of all council leaders, but especially county council leaders, to be able to maintain a balanced financial position through the next few years – this is the product of the end of the certainty period created by the 4 year funding agreement (above), the ongoing constraint in local council tax flexibility, and the absence of information about the future shape of funding arrangements including the Settlement Funding Assessment and key areas of direct social care funding such as the Better Care Fund.
HCC is also keen to emphasise that there are structural challenges for county councils in the current funding mechanisms, and that the current discussion provide an unparalleled opportunity to begin to address these more equitably. These discrepancies mean that county councils receive proportionately less government funding, despite facing proportionately more need in our resident populations.

**Full Response**

1. HCC is one of the largest county councils in England, and has a resident population of £1.2m situated to the immediate north of London. Our response to the inquiry request for evidence is set out in paragraphs 2-34 below.

**Introduction**

2. HCC is supportive of the inquiry’s aims of establishing how effective the existing funding mechanism for local government is, both now and in the future. However, we would like to highlight that this is not the first inquiry of this type. Since 2013, when the current regime of business rates was introduced, there have already been 2 inquiries into 100% Business Rates Retention. These inquiries and calls for evidence, together with those of the IFS and NAO into the financial sustainability of the sector, have concluded with recommendations that are both insightful and welcomed by the sector.

3. However, there has been very little resulting change for the sector. The ministry appears not to understand the drivers of demands or the pressures that council services are under. Instead, it prefers to look to the past rather than plan for the future. This behaviour has resulted in very different financial situations across the country; indicative of a system which has become increasingly unfair.

4. It would be helpful if the inquiry were widened in scope to obtain a fuller picture of the funding challenges facing local government including consideration of funding from other government departments. This is covered further below.

5. There remains no clear evidence of a link between the economic health of an area and the demand placed on statutory services, such as Adults Social Care and Children’s Services. The funding cuts have been made with little recognition of demand or resilience and HCC would still argue that the formulae used to set funding baselines are too backward-looking and do not recognise the true demands on local authorities.

**Q1: 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.**

6. Since austerity began the cuts to local government have been applied, seemingly with no reference to demands, pressures or resilience. The Fair Funding Review has been ongoing for a number of years and the local government media is full of reports from various factions of local authorities arguing why the cuts have been more severe for them than others. HCC supports the objective of the SCT, which has been campaigning for a review of local government funding that moves away from looking at “what was”, locking in past funding and perpetuating the current distribution to considering “what should be” and funding a service where access and quality of care is uniform across the country.
7. The cuts in recent years have caused authorities to report significant problems, including depletion of reserves to very low levels, despite fully utilising council tax income. But on the other hand, in other areas of the country, council tax can be significantly lower than the England average and services which levy a fee in most areas are offered free for all residents.

8. HCC is concerned that the current round of change in local government funding will fail to learn from the changes made in the past. Notably, a clear sense of the need for funding at a specific level (however this is determined) has not always led to funding at that level. Instead, actual funding needs have been taken as a future target towards which a given authority will move, more or less steadily. Factors such as area cost adjustment and floor damping have led to the target level of funding being lost within the wider concern of what is politically acceptable. It would be helpful if a future funding arrangement included a clear consideration of how councils will move towards a target funding level, and consideration of the short term impact of that not being fully achieved.

9. HCC is committed to playing a leading role in co-ordinating the future economic growth of the county, which will help support a future in which key local services are funded entirely through council tax and business rates receipts. We would welcome greater discussion on how these related agendas (of funding for local services and the promotion of growth supported with necessary infrastructure investment) can be considered by the inquiry.

10. HCC urges the ministry to ensure that exemplifications of future funding are available as soon as practical to enable decision on future resource allocations and service provision are taken in a considered manner.

11. In 2016 local authorities with responsibility for delivering Adult Social Care were able to add an additional levy onto council tax bills. HCC took up this levy. The lack of a clear outlook for funding for ASC remains a cause of great concern to HCC.

12. The LGA have estimated the funding gap to be £3.1bn in 2019-20 rising to £8bn by 2024-25. Local authorities deliver statutory services that affect vulnerable people’s lives and futures. This gap needs to be addressed in the 2019 Spending Review – and not just with one-off pots of funding, but sustainably, allowing local authorities the ability to plan and deliver the services that their residents need. When authorities receive one-off funding, it leads to short-term decision making rather than long-term solutions. HCC is facing a funding gap to 2022/23 of £90m, with half of that currently planned for. Work is in hand to close the remainder of that gap, but it is clear that very difficult decisions will need to be taken. HCC has delivered strong financial management for many years, and, since 2010, has secured savings now equivalent to £335m per year.

13. There is a myth within the sector that “counties are rich” and “metropolitan districts are poor”. This is not the case and it is unfair that residents can pay such a wide variation in council tax which bears no resemblance to what is equitable or affordable.

14. Residents in shire areas pay, on average, the highest Band D council tax bills in the country. In 2019-20 the average Band D bill paid by residents in shire areas is £1,818, a staggering 42% higher than Band D bills in Inner London. However, the median income in Inner London is £34,000 - 38% higher than the median in shire areas (£24,592).

15. However, it is not just council tax where the distribution seems inequitable. The following table was produced by the County Councils Network (CCN) as part of their *A Fairer Future*
**for Counties** campaign. It should be noted that the SCT are not advocating or suggesting a flat per-head funding allocation but merely suggesting that, when combined with the disparity in Band D council tax figures, these funding differences appear highly geared away from shire areas.

<table>
<thead>
<tr>
<th>Council type</th>
<th>2019-20 per-head funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>£437</td>
</tr>
<tr>
<td>Metropolitan Boroughs</td>
<td>£319</td>
</tr>
<tr>
<td>Unitary Authorities</td>
<td>£225</td>
</tr>
<tr>
<td>CCN Counties</td>
<td>£153</td>
</tr>
</tbody>
</table>

16. HCC takes the view that MHCLG should consider the impact of all proposed changes at least at the level of different types of council. We recognise that a transparent and equitable system should not take undue account of individual council circumstances; but we also consider that the profile of funding across different council types should be considered to ensure greater parity in overall outcomes, and so greater fairness in terms of services provided to local residents in all areas.

**Q2: 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.**

17. HCC echoes the concern of the SCT in saying that there is no link between increasing business rates and increased demand for services. This view is widely accepted in all sectors.

18. Council Tax is a regressive tax with bills bearing little relation to a resident’s ability to pay. Many think tanks and institutions have proposed solutions to this issue of local taxation (local income tax, mansion tax, flat rate levy on property value, further bands added to the top of the scale, increased rate of VAT); but all are quickly ruled out without further serious discussion and consideration. If council tax is to be retained, then its tax base needs to be updated to reflect current property prices with additional bands added to the current eight.

19. It is the Government’s stated aim that local authorities should one day be “self-sufficient” and no longer reliant on central government support. However, given the divergence of need and income from business rates, and the continued preference for a regressive and out-of-date property tax, to become *successfully* self-reliant seems improbable.

20. Local authorities can be hugely different – both in terms of the wealth of their residents and the services that they require. Therefore, there is always going to be an element of redistribution within the system and it is this that becomes important in terms of achieving a fair distribution.

21. 2019-20 was the 4th year of a 4-year settlement offer for local government, first published in 2016-17. Over those 4 years the 2019-20 settlement (used as an illustration) attracted an additional £1.16bn\(^1\) funding compared to that originally expected in 2016-17. Not only is this indicative of a funding system which is not able to react to pressures, but all of this

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\(^1\) £152.9m cancelled “Negative RSG”, £337m additional improved Better Care Fund, £16m Additional Rural Services Delivery Grant, £240m Winter Pressures Grant and £410m Social Care Support Grant.
additional funding is one-off meaning that it would be imprudent to build it into base budgets.

22. Local government has long asked for multi-year settlements and the 2016-17 offer was welcomed in principle on the basis that it supported proper medium-term planning and was the worst-case scenario. However, it was set against a policy of withdrawal of RSG to be replaced by a 100% business rates scheme. The majority of local authorities signed up to the offer on the basis that it provided a stable minimum position for the 4 years for planning purposes.

23. The position we now face is that 2019-20 is the final year of the settlement and, as yet, there are no plans to replace it. A majority of future funding will be determined through the review of needs and resources (fair funding), but there is no clear timetable to provide exemplification of the likely outcomes of this for individual councils. The proposal for Business Rate Retention is for a 75% scheme to be implemented rather than the 100% scheme originally announced. And we continue to await the release of the green paper on Health and Social care funding, which can reasonably be expected to include recommendations on the future of any adult social care precept and also of the Better Care Fund (in its various iterations). In addition, there is no clarity on the status of the one-off funding granted alongside the current offer.

24. One-off funding does not enable and support proper service planning for many services, in particular those of social care where commitments to care packages cannot be withdrawn once funding disappears. It also fails to provide sufficient time for councils to adequately plan, consult and implement savings proposals, particularly where there are enhanced consultation obligations such as in the provision of support to children with SEND.

25. HCC is currently in receipt of a £39m of Better Care Fund, £46m of Public Health funding, £11m of one-off grants received in 2019/20 only, and £15m of other grants. This means that in excess of £100m of government funding (1/8 of the HCC total budget) is outside the business rates and council tax regime. It is expected that the health and social care green paper will impact on the future of public health and BCF funding, a total of £85m.

Q3: 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.

26. The current baseline funding assessments have not been revisited since 2013-14 when the business rates baselines were set. At the time they were based on the 4-block model, which is no longer in operation. This model contained formulae which are now long out-of-date and, even at the time, based future funding allocations on past spending decisions. When funding allocations are calculated in this way it perpetuates any systemic under/over funding. It also, due to the backwards-looking nature, is not good at forecasting future needs.

27. The SCT have been calling for this methodology to end and for funding allocations to be based on the services that should be available for certain client groups. HCC supports this. Representatives of the Society have been active members of all the Fair Funding Review's working groups, including the needs working group and the steering group. When the SCT has shared this desire for a more “normative” approach there has been broad support amongst both local and central government, yet we are disappointed to see that the
Ministry’s preferred option for the updated Adult Social Care formula is one based on past activity and that the “normative” approach is ruled out.

28. In recent times the parliamentary timetable has been taken up with the business of Brexit and it is now looking possible that there may be a delay to the Spending Review and even the Fair Funding Review. This potential delay would further compound the uncertainty of one-off funding announcements in recent years and, given the vulnerable client groups affected, should not be acceptable. The sector needs a sustainable solution to the services under the most pressure – namely Adults, Children’s Social Care and SEND.

29. HCC continues to take the view that the level of the local population, and the growth in that level from year to year, is a key determinant of overall council costs. Further, the costs associated with specific services are also closely related to the client population for those services, and that this is more easy to evidence than, for example, the connection between deprivation and demand for services.

30. HCC also supports the view the use of historical regression is misleading. That is to say, estimating the future level of funding for services such as rural bus routes should not be based on the level of funding in the recent past, since recent actual level of funding has been determined by the overall funding position for local government, and, in particular, funding cuts since 2010. We would hope to avoid a situation in which past cuts become a way to justify future underfunding.

Q4: 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.

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

32. HCC is already in the process of laying plans for a range of spending cuts to be implemented ahead of the next financial year. Some of these will undoubtedly impact upon frontline services. It would be helpful to both members and officers to have an early insight into the future levels of funding to enable these decisions to be taken in a proper and considered way.

33. The current debates provide an unparalleled opportunity for MHCLG to widen the scope of its review beyond the current ‘settlement’ funding – much of local government’s funding comes from other government departments. When government departments fail to cooperate, and grant announcements are made late, then that makes local service planning even more difficult. For example, aside from Business Rates, council tax, and RSG, HCC also receives grant funding from:
   - DfE – Dedicated Schools Grant, Pupil Premium and Universal Infant School Meals Grant Funding
   - DoHSC - Public Health Grant; Better Care Fund
   - DfT – funding for highways (often as capital grants, but a significant part of our wider consideration of how local growth is supported)
• New Homes Bonus
• PFI Grants
• Grants from the Skills Funding Agency for adult and community learning
• 6th form funding from the Education Funding Agency

34. HCC supports the view of SCT that it would be hugely beneficial to the sector if the inquiry considered these additional grant streams when addressing the issues facing local authorities. HCC considers that clear understanding of social care funding including both the demand for services as well the sources of funding to meet those demands is essential if a truly sustainable future arrangement for those services is to be achieved.

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