1. 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?

1.1. Austerity is not over for most public services, including local government. Last year’s Budget announced that real-terms day-to-day spending on most public services would, on average, increase by 1.2% annually between 2019/20 and 2023/24. But much of this increase has already been earmarked for the NHS. While the NHS will receive a 3.4% annual increase in spending over the next five years, the Government’s plans suggest other public services will face real-terms spending cuts in this year’s Spending Review. The Institute for Fiscal Studies (IFS) show that over half of total day-to-day spending that will be covered by the Spending Review is accounted for by the NHS, defense and international aid. For these three areas the government has already announced firm commitments to increase spending significantly in real terms. Other ‘unprotected’ public services – including local government, will be left with less. The IFS project that spending on these unprotected services will be 1.5% lower in real terms in 2023/24 than in 2019/20. This implies continued austerity for local government.

1.2. The changes to local government funding in England over the period 2010/11 to 2019/20 have meant authorities located in the most deprived areas of the country, including Gateshead, have had to bear a disproportionately high level of cuts in proportion to their relative needs. For Gateshead, this has meant it has had to cut £170m from its budget. A report by the University of Cambridge, published in October 2018, concluded that English councils have faced an average budget cut of 24%. Gateshead is one of only seven councils where cuts exceeded 40%. Gateshead has seen a 52% reduction in core government grants. The research found that councils that were most reliant on government grants, with lower property values and fewer other funding sources, have been hardest hit. The research also concluded that austerity has not hit all areas equally, and that southern England has experienced ‘relatively minor’ service cuts. This reinforces the notion that the poorest authority areas have had to bear the biggest cuts. Overall spending by local authorities on services fell by 19.2% in real terms between 2010/11 and 2016/17. Yet there is still no sign that MHCLG has a clear plan to secure the financial sustainability of local authorities in the long-term. The Council welcomes the recommendations in the House of Commons Committee of Public Accounts report on local government spending (23/01/19).

1.3. At the same time that overall funding has fallen, a greater share of the total has been earmarked for incentive schemes to benefit more prosperous authorities, including New Homes Bonus, Business Rate Growth Retention and the Social Care Precept, leaving less funds available for a needs share.

1.4. Over the last 4 years, selective funding awards have been introduced as an apparent result of lobbying rather than policy, such as Rural Services Grant, the elimination of negative RSG and Transition Grant, undermining the “four year

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2 https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/1775/1775.pdf
offer” of 2016. This has invited the view from many that there is a lack of transparency at the heart of government, with political favouritism shielding the wealthy authorities from cuts.

1.5. There is a lack of understanding or analysis of how demand has changed with reforms to the welfare system - There has been widespread analysis of the impact and potential impact of welfare reform, including from the House of Commons library\(^3\), but sadly no analysis by the DWP since its Impact Assessment in August 2016. It is clear that the changes to demand upon local government as an impact of welfare reform has hit hardest in areas with low employment prospects, and future funding reform needs to reflect this demand increase.

1.6. Failure will not necessarily present itself as financial failure, but in the form of service failure in key services, and in many cases would leave the Council unable to “do the right thing” for some of the most vulnerable and in need residents and families. Additionally, “unmet need” must be addressed to reflect the historic disproportionate cuts to more deprived authorities. A fairer distribution may go some way to address this going forward but does not undo the cuts made in the past.

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?

2.1. Business Rates and Council Tax are both overdue review both from the point of view of fairness for taxpayers and for local authorities. The Business Rates Retention system is overly complex, and exposes local authorities to the risks of factors beyond their control, including appeals and central government policy changes.

2.2. The increased use over the last few years of reactive windfall funding such as Improved Better Care does not support planned service delivery, particularly due to its short-term nature, the announcements are typically for one year only and are sometimes announced in-year to be spent in a short period of time.

2.3. Although this has been stated as an intention, the Government is still not viewing Local Government funding policy in the context of the whole of government. Many of the savings for health and education have been obtained at the expense of local government, passing a large proportion of cost through redirection of demand.

2.4. Ambitious and elaborate devolution plans and alternative funding sources are a secondary objective when compared to the more immediate issue of a fair share of a fairly raised national taxation pot, over the next spending review. The value of any locally raised income is likely to vary significantly from one authority to the next, particularly in more deprived areas where there is less ability to pay by individuals and more reliance on discount schemes. The priority should be on

\(^3\) https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CDP-2018-0072
securing sufficient and sustainable overall funding and a fair needs-based redistribution to avoid the postcode lottery of local services that residents currently face.

3. 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?

3.1. The Council welcomes the findings and recommendations of the House of Commons Committee of Public Accounts report on local government spending (23/01/19).

3.2. Financial support for local government is currently characterised by one-off, short-term initiatives, which do not provide value for money, rather than a meaningful long-term financial plan for the sector. This presents a risk to value for taxpayers' money.

3.3. MHCLG should work with Council’s to collect and analyse evidence on the impacts on value for money and service users of providing one-off, short term funding rather than through long-term funding settlements.

3.4. MHCLG has not published any conclusions on the cost of providing decent statutory services even at national level. This information would allow both MHCLG to combine indicative costs with demand levels to construct a meaningful assessment of the quantum of funding, and allow Local Authorities to assess its own level of spending within each area.

3.5. Associated with this, MHCLG has not published any conclusions or dialogue on what are essential (non-statutory) services. This does not provide any clear guidance on what services MHCLG effectively prescribe are required.

3.6. There is a failure to assess all needs on the same evidence based approach. The Council’s response to the Fair Funding – relative needs and resources consultation in February 2019 identified that the proposed methodology for the allocation of funding to Local Authorities is flawed in that it does not recognise deprivation as a core cost driver for all statutory services. This was the overwhelming response from the sector, including the LGA and SIGOMA, and in light of this response, the department must reflect deprivation as a prime indicator of need for Council services.

3.7. The relative needs and relative resources funding methodology proposes an over-“simplification” which comes at the expense of fairness. There needs to be an acceptance an element of complexity will always be required in relation to the funding of the complex myriad of services provided by local authorities, with multiple cost drivers.

4. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of

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4 https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/1775/1775.pdf
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 Government should clearly set out its fiscal targets – how much money it intends to spend and to raise in tax (and is prepared to borrow). It needs to resolve the current ambiguity around how much it intends to reduce the deficit by, and by when. As part of this, it should set out its vision for the UK, including life after Brexit. That means explaining its priorities for public services (beyond the NHS), and for investment. The clearer it is about its agenda, the easier it will be to justify the difficult choices it needs to make.

4.2. Overall funding must be sufficient for the local government sector as a whole to provide an equivalent standard of basic services, but there must also be an acknowledgement of and a remedy to the disproportionate burdens borne by deprived areas. This must start with funding the services that local government are required to provide in proportion to need. If central government has policy aspirations beyond the basic for local authorities, then it must also be sufficient to fund these in addition.

4.3. The Department and the Treasury should listen to the warnings of the Public Accounts Committee, the LGA and others that they must make a rational, evidence-based assessment of the total value of funding necessary for Councils to deliver basic services. To date, they have not shared evidence of having done so.

4.4. The new proposals for the funding formula around relative needs and resources are over simplifying the allocation formula in pursuit of a “flatter” formula that benefit less needy authorities and are therefore less fair. MHCLG should present the committee with their assessment of the impact this will have on local populations with different levels of relative need.

4.5. Core spending power must be the key measure used to determine the impact of funding changes. This needs to include all funding streams to be a fair method, including public health and IBCF.

4.6. An increase in the quantum of funding for local government. The Government must recognise that local government needs to be resourced adequately and sustainably with clarity on the medium term to enable meaningful financial planning horizon. Financial uncertainty, both short term and long term, creates risks for value for money as it encourages short-term decision making and undermines strategic planning.

4.7. Additional rate retention should not come with additional responsibilities, to address the funding gap that already exists. A greater quantum is required.

4.8. Treasury should stay aware of, and adjust Departmental funding for events that have the effect of reducing funding to local government and increasing funding to other departments.

4.9. Recognition must be made of the additional costs associated with providing services in an urban setting, including:
• Concentrations of Deprivation
• Social Challenges including crime and ASB
• Student/youth populations
• Environmental and waste challenges
• Demand from non-resident daytime populations
• Health

4.10. The review needs to focus on performance, not just on allocating money to be spent. It needs to look at the results of that spending – what it does for citizens. A clear statement about the plans agreed by the Treasury and departments in the Spending Review in terms of performance and outcomes, as well as spending, should be published. The National Audit Office (NAO) should comment on whether the modelling and assumptions on which these statements are based are robust.

4.11. The Treasury should look beyond individual departments and use the review as a chance to solve problems that extend across departmental boundaries. Brexit is the most prominent. The future role played by local government and the funding needed to support it is another. Techniques of identifying and managing financial risk would benefit from consistency. Above all, the pursuit of value and efficiency is best co-ordinated from the centre of government.

4.12. The Government should publish more information about its intentions in terms of spending and performance, and once the review is implemented, what actually happened. It should present it in ways which interested, but non-expert, citizens can understand. The Institute for Government will contribute to the current Procedure Committee inquiry on the scrutiny of spending plans, and will look to work with government and Parliament to support improvements in documentation and processes.

4.13. The Treasury should set about strengthening the skills and expertise of its staff. Most immediately, it should make use of expert panels, and selected short-term external hires, to improve its insight into the most challenging issues facing the 2019 Spending Review. Beyond that, it needs a sustained push to raise the number of its staff with financial skills. It needs to recruit more staff with experience in delivering public services, including those delivered by local authorities, and to reduce turnover of officials in their jobs. It needs to ensure that pay and benefits are enough to recruit and retain the necessary mix of professional backgrounds and ability.

Conclusion

Funding to local authorities has reduced dramatically under the austerity programme since 2010, with the most grant dependent councils losing the greatest proportion of funding, of which Gateshead is one of those authorities hit hardest. Over the same period, welfare reforms have resulted in those most at risk increasing demand led pressure upon local authority services to meet their basic needs, particularly in the more deprived areas that are home to greater proportions of welfare recipients. This has been the case in Gateshead, where the roll-out of Universal Credit in October 2017 has had the effect of pushing many into debt, rent arrears and serious hardship, which includes regularly going without food and utilities.
At the same time that overall funding has fallen, a greater share of the total has been earmarked, often through top-slicing, for incentive schemes to benefit more prosperous authorities, including New Homes Bonus, Business Rate Growth Retention and the Social Care Precept, leaving less funds available for a needs share.

The overall quantum of funding in 2020 has fallen significantly short of that needed to sustain essential services going forward. Government plans to allow additional rate retention on a fiscally neutral basis will not relieve this shortfall, and instead will place additional risks of underfunding with authorities. The Government should be transparent in that Core Spending Power increases assumes maximum increases in Council Tax.

A sustainable local government can only be achieved by a commitment to an adequate quantum of funding into the formula. This fundamental issue needs to be addressed if the concept of fiscal devolution is to succeed. In addition, the review of the mechanism for allocating funding across the sector must reflect the relative needs and relative resources of each authority across the country and address the disproportionate cuts to Council funding over the past 10 years.

This Council supports the conclusions of the National Audit Office (NAO) report published 8 March 2018 on the ‘financial sustainability of local authorities 2018’ that [the Department MHCLG] must set out at the earliest opportunity a long-term financial plan for the sector [local government] that includes sufficient funding to address specific service pressures and secure the sector’s future financial sustainability. The sector needs additional investment over and above the current funding commitments to allow local government to deliver the vital services that our residents need. It is vital that the Government uses the opportunity of the 2019 Spending Review to deliver truly sufficient and sustainable funding for the sector alongside a method of fair distribution. Investing in councils will have a positive effect on wider economic growth, strengthening finances which can be reinvested through preventative work to reduce the wider costs on public services.

The Government should not use the delay to Brexit to create any further delays to the Spending Review. Local authorities need medium term certainty to enable strategic planning with a degree of confidence in relation to their funding.

The Council also supports the joint response provided to the inquiry by SIGOMA, of which it is a member.

April 2019