The Local Government funding regime is subject to an unprecedented level of change and uncertainty as we approach the next Spending Review. This is against the backdrop of the Fair Funding Review and the review of the Business Rates Retention system and of course the wider uncertainty as a result of the current difficulties associated with the UK’s withdrawal from the European Union.

The sheer level of uncertainty and the many unresolved issues makes it extremely difficult for Councils to undertake meaningful longer term financial planning.

We are grateful for the opportunity to contribute to this inquiry and for the Select Committee’s effort to raise the profile of the significant financial pressures that local authorities face.

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. Since austerity began Local Government has seen some of the most severe cuts in funding of any part of the public sector. Despite these significant funding reductions, as a general rule, councils have been very effective in trying to minimise the impact on residents and service users. This has included significant efficiency and transformation measures. For example, at Selby DC over £6m of savings have been delivered to the end of 2018-19 without significant impact on frontline services. However, further savings are still required and inevitably it becomes increasingly difficult to find savings that do not impact on service users – for example charging for garden waste which is something Selby has not (yet) done.

2. The impact on services has also been to some extent ‘masked’ to date because councils have been able to use their reserves to maintain services, but this is clearly not sustainable in anything other than the short term and there are signs of a number of local authorities reaching a critical tipping point in terms of their financial sustainability. Overall the LGA estimate a funding gap of £3bn in the current financial year rising to over £8bn by 2024/25.

3. We also have major concerns that the cuts to local government have been applied with little or no evidence of impact assessments being undertaken and with no reference to, or apparent understanding of, the demands or pressures on local government. This is compounded because of the complexity of the different funding sources for LAs. This means the decisions of a number of government departments impact on local authorities but there is no overall coordination of this funding or understanding of the interrelationship between different funding streams.

4. In terms of direct funding MHCLG is now a minority funder of local government. With significant funding streams from other government departments, particularly the Department of Health and the Department for Education, having critical impacts on the sustainability of local authorities it is crucial that there is greater co-ordination and understanding between departments.

5. There has been some recognition of particular demand and funding pressures but these have usually been in the form of reactive, shorter-term funding (such as homelessness reduction grant). Whilst this is welcome, its ‘one-off’ nature makes it impossible to plan effectively for the longer term and risks future sustainability should funding be withdrawn.
6. We also see the benefit of incentive funding and see New Homes Bonus as an effective mechanism for supporting delivery of additional housing—over the years 2015/16 – 2018/19 we have delivered, in total, an extra 517 houses above the equivalent target of 1,800—nearly 30% above target. However the short-term nature of that funding does make longer term financial planning difficult and challenges our ability to commit funding to support ongoing service costs.

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

7. Whilst broadly welcoming the principle self-financing we do not believe that Business Rate Retention (BRR) is an appropriate means of funding future pressures on local government. As well as concerns about its long term sustainability (given the well documented issues round the future of the high street and competition from online business etc.) we do not see any link between the ability to generate additional business rate income and the level of demand for key services. The system is also increasingly complex which impacts on LAs’ confidence in forecasting and planning resources. Unless there is a credible, well-evidenced overarching funding framework which reflects a fair and objective view of funding, we are concerned that BRR will further exacerbate relative funding inequality.

8. Council Tax was not originally designed to be the main funding source for local authorities but with the reductions in core government grant funding it has taken on a more and more significant role. However, it has major structural issues: it is not ‘buoyant’ so is not suited to flexibly responding to cost or demand pressures and it is a broadly regressive tax with bills bearing little relation to a resident’s ability to pay. At a minimum there should be an urgent revaluation of the Council Tax base and consideration of additional council tax bandings. MHCLG should also be open to a meaningful discussion of alternative funding options.

9. Local authorities inevitably show great variability, be that in terms of the wealth of their residents, their geography and the services that they require. For example in Selby Internal Drainage Board Levies are £1.7m the single biggest net ‘service’ cost after our own Street Scene service. Therefore, there will always need to be an element of redistribution within the system and it is this that becomes important in terms of achieving a fair distribution. A clear, fair and well-evidenced finance regime with explicit assumptions is the key to supporting effective financial planning by local authorities.

10. The ability for local authorities to generate income is an important part of overall funding and councils should have the freedom to pursue innovative ways to generate service income but there also needs to be a clear rationale for those services which should be paid for at point of delivery and those which should be covered in full or part through taxation.

11. Many local authorities are understandably turning to commercial ventures to generate additional income as an alternative to further spending reductions. This does however present a higher level of risk and uncertainty in the funding of essential services.

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.
12. The current funding needs mechanism is outdated, complex and opaque. SDC welcomes the commitment to the Fair Funding Review although we remain concerned that it still relies on using past spending as a proxy for ‘need’, in many cases this simply reflects the relative level of funding available at that time. Therefore, it becomes a circular argument that the factors explaining variations are those that influenced the original funding allocations.

13. SDC welcomes the work to consider simplification of the formula but not at the expense of fairness. We also welcome proposals to apply population as the cost driver for the foundation formula is reasonable and agree that deprivation is better reflected in service specific formulae where there is a proven link, as proposed – this significantly aids simplification of the formula.

14. We do have concerns however, over the exclusion of a fixed amount in the foundation formula – the fixed corporate overheads of running a council are not driven by population numbers and we feel strongly that a notional element to reflect these costs should be included. This would enable recognition of the inevitable lack of economies of scale for district councils and it would not add significant complexity to the formula.

15. If councils are to have confidence in understanding and planning their finances then there must be a transparent funding mechanism with explicit assumptions. As an authority SDC would like to be able to clearly see how its allocations have been calculated and to be able to replicate that calculation and model it for different scenarios.

16. We are also concerned to ensure that the important role that district councils play in supporting some of the most vulnerable in our society is recognised in the funding formula – for example access to decent social and affordable housing plays a key part in reducing demand for health and social care services.

17. Cost pressures as well as demand pressures are a significant factor in local authority financial difficulties, there is a need to understand and reflect these in a more meaningful way in the overall funding arrangements (e.g. within the Area Cost Adjustment).

18. There has been a particular under-representation of the higher costs of service provision in rural areas. These arise from a number of factors including:

   a) Higher unit costs because of the direct transport costs and higher unproductive time linked to longer distance travel. For example, within our refuse collection service;
   b) Workforce issues linked to an ageing population and the costs of rural living
   c) The loss of economies of scale through the need for more, and smaller, specialist units
   d) The lack of developed, competitive markets for service provision in many rural areas.

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.
19. Delays in the announcement of the 2019 Spending Review further exacerbate the difficulties for LAs in trying to undertake effective financial planning for the future so SDC would encourage early publication ahead of the Autumn Budget.

20. The overall quantum of funding remains the most pressing issue in the context of financially sustainable local authorities and so we would anticipate additional real terms funding going in to the sector in the 2019 CSR. This should be based on an informed understanding of the key financial pressures on councils. This should be over and above the consolidation of the key time-limited funding sources into the long term base funding for LAs.

21. There also needs to be a genuine multi-year settlement that allows local authorities to effectively plan for the longer term.

22. In future we would suggest that any proposed reductions in funding have a lead-in time before implementation to allow local authorities to properly plan their response.

Thank you again for giving us the opportunity to contribute to this inquiry.

April 2019