Written evidence submitted by Cambridgeshire County Council [FSR 096]

<table>
<thead>
<tr>
<th>1.0</th>
<th>The Committee’s Inquiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Cambridgeshire County Council welcomes the opportunity to respond to the Local Government Finance and the 2019 Spending Review inquiry.</td>
</tr>
</tbody>
</table>
| 1.2 | We support the Committee's aims to establish how effective the existing funding mechanism for local government is, both now and in the future.  
We have supported previous Committee inquiries into local government funding, including the provision of written and oral evidence. However, we are disappointed at the lack of progress in implementation of previous recommendations.  
We hope that this Committee does all it can to influence the Ministry – using its findings to drive change and ultimately providing a robust and sustainable funding mechanism for local government in the future. |
| 1.3 | In sections 3-6 below we outline our comments in relation to the published terms of reference and also make the following general comments in section 2. |

<table>
<thead>
<tr>
<th>2.0</th>
<th>General issues / key headlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Local authorities face major difficulties in sustaining essential services in an environment of severe funding reductions. The current position is unsustainable.</td>
</tr>
<tr>
<td>2.2</td>
<td>Between 2010 and 2020 councils in England will have seen a reduction in core funding of nearly £16bn and that local services will face a £7.8bn funding gap just to stand still by 2025. This is in the context of unprecedented increases in demand, especially in relation to social care.</td>
</tr>
<tr>
<td>2.3</td>
<td>Responsibility for Public Health transferred to councils in 2013 from the NHS. NHS funding has increased year on year and is expected to continue to do so. By contrast, Public Health funding has reduced by 14% (£531m) which seems a perverse approach to funding of preventative services.</td>
</tr>
<tr>
<td>2.4</td>
<td>The move to 75% retention of business rates and the phasing out of more general government grants will significantly change the make-up of council funding, increasing potential rewards but also exposing councils to increased risks, such as losses in income due to business rates appeals.</td>
</tr>
<tr>
<td>2.5</td>
<td>The Fair Funding Review could also have a significant impact for councils. Cambridgeshire County Council believes the need for reform is urgent. We are increasingly concerned by slow progress to date with key decisions, leaving limited time for appropriate or meaningful financial planning before April 2020.</td>
</tr>
<tr>
<td>2.6</td>
<td>We understand that there are competing demands on Parliamentary time, but this impacts on local government with delays to the provisional settlement announcement and other local government decisions. We are unnerved reports of any delay to the Spending Review and the Fair Funding Review and increased business rate retention. For the sake of locally delivered services we believe these areas must be a top priority for Parliament and the Government.</td>
</tr>
<tr>
<td>2.7</td>
<td>The long awaited proposals on social care funding have now been delayed for the fourth time with no clear timetable for publication.</td>
</tr>
</tbody>
</table>
For Cambridgeshire **upwards of £30m** in funding across the Better Care Fund, Improved Better Care Fund and Social Care Support Grants continues in 2019-20 without confirmation beyond March 2020. This “patching up” of funding in the short-term is not a sustainable long-term planning basis for vital public services.

The significant uncertainty for local authorities presents a major risk.

### 2.8

In this climate, many Councils are making cautious assumptions about budgets in anticipation of even greater funding reductions.

As the Select Committee has recently highlighted itself there is a danger that some Councils will delay investment decisions which would otherwise deliver increased economic development.

As a result of the continued uncertainty regarding funding reform, the Government also risks impacting service levels which are already suppressed due to funding reductions. It would be extremely regrettable for further service reductions to take place only for these to be reversed, potentially at greater cost than maintaining current provision, once funding reform is in place.

### 2.9

The Committee has also noted that the additional retention in business rates should first be used to fund current unfunded need within the system, primarily adult and children’s social care which we support.

Councils have worked hard to redesign processes, create efficiencies and deliver front line services with a significant reduction in funding.

Cambridgeshire has been judged to provide the majority of its services at comparatively low cost compared to our statistical neighbours. This is particularly true in Adult Social Care, our largest area of spend. This is against a backdrop of growth and high costs of living in parts of the county, in an area which features both pockets of extreme deprivation and rural isolation.

Many councils are now facing the possibility of a future where only a basic level of core / statutory functions will be provided.

### 2.10

Demand is increasing across all services. In Cambridgeshire:

- **Numbers of children** in need have increased 8% in the last year, with numbers of looked after children rising 8.1%.
- **Nursing home placement numbers** for older people have risen 12.2% in the last year, with **prices rising** by more than 13% compared to a year ago.
- **Emergency admissions to hospitals are up 6%** compared to a year-ago with a knock on impact for social care.

Across England there is a major backlog of pothole repairs.

Councils are increasingly being forced to draw on reserves to fund services. Cambridgeshire has a relatively low level of reserves compared to other County Councils and therefore a reduced capacity to respond to reductions in funding or smooth uncertainty arising from the national situation.

### 2.11

Reduced funding leads to difficult decisions about prevention:
• If councils are unable to fund sufficient support for older people, more of them will be admitted to hospital.
• Less money for children’s services mean our young people will just get by rather than thrive. There is greater capacity for the vulnerable to fall through the cracks in the system.
• Failing to maintain our highways now will mean higher costs later and an increase in insurance claims for damage to vehicles as a result.

2.12 Your Committee published its fifth report on business rates retention last year, with the government response being published in August.

We agree with your recommendations and observations. In particular that:

• Uncertainty around increased retention has negatively affected Councils’ financial planning
• Local authorities need a clear timetable of events with early indicative figures for each authority by Spring 2019 and final figures by Summer 2019 at the latest. We also need information regarding any transitional arrangements at the earliest opportunity.
• In particular, your report strongly recommended that, given the financial position of many local authorities, before any grants are rolled in, that local government should be allowed to use the additional revenue from 75% retention to fund existing cost pressures.
• Authorities need early sight of the proposals for any reset including the design of the reset, the extent to which Councils’ will lose any growth they have achieved and the length of the reset period.
• The reformed system will need to be supported by a system of grants for authorities affected by increases in need.
• Government should provide assurances to Councils that the risk from appeals will be significantly reduced before further business rates retention is implemented and that the Valuation Office should be fit for purpose with a plan to eliminate the backlog of appeals by April 2020.
• Most importantly, your report states that the overall quantum of funding available to local government needs to increase to reflect changing demographic trends and ensure sufficient funding for demand-led services, in particular adult and children’s social care, and Councils’ overall financial sustainability.

2.13 It is important that this inquiry recognises and addresses all funding sources for local government not just that provided by MHCLG and through council tax. This will ensure that the Committee has the full picture on local government finance.

There are an increasing number of ‘unknowns’ around funding post 2019-20 which is now making it problematic for authorities to know what their funding will be going forwards and therefore effectively plan for the future.

2.14 We welcome MHCLG’s proposals to reform some elements of local government funding through business rate reform and the Fair Funding Review but we do have some concerns around the increasing levels of complexity being proposed and, more importantly, the concern around the rate of progress. This could lead to last
minute, ad-hoc decisions, leaving authorities little time to understand the impact and plan accordingly. Any future funding system must ensure that the appropriate protections are put in place for social care providing authorities.

2.15 **The quantum of funding for local government** is not sustainable. More recently, government have made additional, short term funding available at the eleventh hour. Whilst a welcome lifeline, funding on this basis is not sustainable and does not allow authorities to plan for the future on a robust basis.

2.16 **Council tax** is becoming an increasingly important source of funding. We are concerned that we are becoming overly reliant on local taxpayers' ability to make up for cuts to central government funding. Central government is using local taxpayers to fill the gap and this is not sustainable.

2.17 It is also important to know whether the **Adult Social Care precept** is likely to be extended post 2019-20. Again, this is vital for planning purposes.

2.18 **Recommendations for a future local government funding system.**

- Redistribution to a flatter distribution of funding across the country reflecting a fairer share of costs on local council tax payers.
- The Spending Review should provide extra funding for local authorities to meet current levels of known unmet need and enable redistribution.
- A sustainable and rolling four-year financial settlement should be published that allows Councils to continue deliver valued services and plan for the future.
- Provide early notification of any proposed changes to New Homes Bonus.
- Provide early notification of the outcome of the Fair Funding Review and the Business Rate Retention Reform to allow authorities to set budgets and medium term financial plans post 2019-20.
- Future funding mechanisms should be easy to understand, accurate and transparent.
- Authorities should be able to accurately forecast future expenditure on a comprehensive basis and across funding streams from different government departments.

3.0 **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.**

3.1 The current funding mechanism has arisen through a number of incremental changes to an already flawed system. This has resulted in a lack of transparency and cohesion between funding sources.

3.2 Whilst the principle of a multi-year settlement is appealing, it must come with an overall quantum of funding that is sufficient to meet local authority need.

3.3 Any future multi-year offer would need to cover key, core areas of funding and it would need to be on a rolling basis to ensure it looks forward to the next four years on an ongoing basis. This would significantly help authorities with their financial planning.

3.4 It is widely recognised that local government finances face a critical situation, with
large areas of unfunded need, rising demand and unprecedented reductions to funding. The Government has dealt with specific issues by announcing a series of one off funding packages, particularly in relation to social care. Whilst this is a welcome lifeline for authorities it is not a sustainable solution.

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

This is essentially funding at the point of crisis and tends to be allocated on a varied basis with the aim of avoiding catastrophic failure within the system (not prevention or addressing the full problem).

3.6 We welcome the Fair Funding Review and proposal for business rate reform however are disappointed at the current lack of clarity of specific proposals this late in the process. We now urgently need to see accurate exemplifications, well before provisional settlement 2020-21 to understand the financial impact.

3.7 There is a significant issue for County Councils in two-tier areas due to reliance on the District Councils to provide timely and accurate information about business rates and council tax. This doesn’t always happen and is rarely completed on a consistent basis across a county geographic area.

There have been regular tweaks to the system since its introduction i.e. around reliefs, revaluation, different types of pilots, the use of inflation and section 31 grants and this causes greater uncertainty.

3.8 As it currently stands our 2020-21 settlement and beyond will be driven by the outcomes of:
- Spending Review 2019
- Fair Funding Review
- Business Rate Reform.

All of these have significant potential to affect our funding and we are concerned that relevant information will be provided late in the process bringing confusion and further uncertainty to the budget setting process.

3.9 Cuts to funding have led to an increasing reliance on locally generated income streams such as council tax. Again, this is not sustainable with taxpayers being expected to offset lost government grant in order to provide services.

3.10 The lateness of funding announcements has also impacted on authorities’ abilities to plan for the future. We welcomed the outcome of the Hudson review which recommended early provisional and final settlement dates and were disappointed when the provisional settlement 2019-20 was delayed.

Some funding sources are not announced until after the start of the financial year (e.g. Education Capital Grant, Public Health Grant) which makes proper planning impossible.
## 4.0 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.

### 4.1 The current local government funding system is unsustainable, evidenced by Government’s own recent moves to provide emergency, one-off funding.

The Institute for Fiscal Studies has highlighted that 80% of Councils are not confident in the sustainability of local government finance.

Reductions in funding have also changed the focus of Council spending. Children’s and Adult Social Care services constitute an increasing proportion of council budgets as opportunities to make savings in these areas reduce, placing other council services under significant pressure.

### 4.2 The Green Paper on social care is still awaiting publication following several delays. This has the potential to significantly impact social care policy and funding for local authorities – but we are not clear in what ways.

### 4.3 Councils have become more dependent on their own tax-raising powers given the cuts to funding and the introduction of the business rates retention scheme which means that a large proportion of our funding now comes from business rates. However, there is no correlation between growth in business rates and the need for social care spending. It is hard to imagine an environment when growth in business rates will keep pace with growth in social care demand. This will just exacerbate the problem if ignored.

### 4.4 Alongside unprecedented cuts to funding and rising demand, authorities have also inherited additional responsibilities resulting in well-documented levels of unfunded need. A starting point for any new funding mechanism must be to accurately identify the total quantum of unmet need and provide additional funding to support authorities in delivering their basic services.

### 4.5 The Council tax system requires overhaul to include both revaluation of bands and an increased number of these to reflect the current environment.

The current system has led to a varying range of service delivery across local authorities with some far better off than others.

### 4.6 In order to improve the system, we need:

- **A fairer distribution of funding between functions and areas of the country**
- **An increased quantum of funding, sufficient to meet a basic standard of need for all Councils and enable redistribution**
- **More certainty over future funding streams.**
- **Earlier announcements over funding and referendum limits.**
- **Not to have to rely on one-off funding.**

We are concerned that the Fair Funding Review will just look at the redistribution of existing and insufficient funding. It will not look at the quantum or address the very high levels of unmet need in the system. The Fair Funding Review will only be
sustainable if additional resources are made available.

4.7 **We appeal to government to allocate the extra funding made available through increased business rates retention to fund existing unmet need**, particularly in relation to adult social care and children's services. It should not be used in the first instance to phase out grants as is currently proposed. Troubled Families Grant, for instance, is funding important preventative services, which needs to continue.

4.8 Local government has sustained disproportionately large reductions in government funding over this decade in comparison to other parts of the public sector. This is not sustainable and if the funding gap is not addressed, there will be serious consequences for communities.

5.0 **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.**

5.1 Current baseline funding assessments have been in place since 2013-14 and are based on the four block model, which contained formulae which were out of date even in 2013 and based future funding allocations on past spending decisions which perpetuates any systemic under/over funding.

5.2 Cambridgeshire County Council has been calling for an end to this methodology for many years and very much hopes that the Fair Funding Review will address our concerns.

We believe the key criteria for any new needs assessment are:
- A balance between simplicity and accuracy / fairness.
- Flexible and responsive to future changes - the funding system must be future-proof.
- Using the latest available evidence.
- Addressing current (and potential future) levels of unmet need.

We also believe a new funding system should be:
- Clear
- Predictable
- Easy to implement
- Minimise extra burdens
- Transparent
- Sustainable

5.3 **We broadly welcome the proposed introduction of the Foundation Formula (FF) with a move to a flatter distribution.** We are also pleased to see the proposed simplification of the service-specific formula under the Fair Funding Review.

We welcome the proposal to use population projections in the new funding formula. Using population projections at the start of the funding period allows the needs assessment to reflect expected population changes and gives authorities certainty of income. There is significant projected variation in the growth of population at local authority level to warrant the use of projections.

However, we do not believe that these should not be locked in until the next reset. We believe that they **could be updated every two years** as and when the data are
Moreover, Cambridgeshire County Council also argues that improvements are needed to the ONS population forecasting methodology. In our experience, growth has been underestimated by relying on previous trends rather than plans for housebuilding, and overestimating departures of overseas workers based on measures at the border rather than the vibrancy and employment levels within economies such as greater Cambridge.

5.4 Under the current system high growth authorities, such as Cambridgeshire, have been significantly penalised for the growth they have achieved and, in the current economic climate, are unable to sustain growth and meet the associated costs arising from a growing population. Funding has simply not kept pace with population increases and the faster growing authorities are hit the hardest. If population projections are not updated regularly between resets, then high growth authorities will continue to be penalised.

5.5 The Fair Funding Review (FFR) should bring significant re-distributional changes across local government. We are unable to assess the impact of the review on the information currently available and do not know what any transitional arrangements might look like. This makes planning effectively for 2020-21 onwards practically impossible. As a minimum we need to know what Government believe the maximum decrease in funding for authorities should be. That would at least help us plan for the worse-case scenario.

5.6 We should also consider the purpose of the funding formula — is it to fund services (and costs) as they currently exist, or to provide funding for a standard level of service? We believe it should be the latter but that is not necessarily what is happening in practice.

5.7 Cambridgeshire’s relative needs

5.7.1 We note the department has consulted earlier in 2019 on relative needs and resources. Cambridgeshire County Council made strong representations in that consultation, including:

- Home to School transport should not be funded on a purely per capita basis
- Further account is required of the responsibilities for SEND children and young people 0-25, and SEND transport
- The greater weighting given to population projections in the foundation formula (flatter distribution) is welcome
- Concern about the quality and accuracy of data informing Children’s and Young People's elements of the formula
- Supporting simplification of the Highways element
- That area cost adjustment should move to recognition of rurality/density and remoteness
- That the average level of Council tax collection (rather than 100%) should be assumed by central government
- That baselines, as a minimum, should reflect all actual funding in 2019-20
- Regretting that there have been no exemplifications of funding to date

6.0 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.

| 6.1 | As highlighted above, the outcome of the 2019 Spending Review is critical for the future of local government funding. |
| 6.2 | If the outcome is published at Autumn Budget this does not give authorities sufficient time to plan their 2020-21 budget setting process on a prudent and realistic basis, particularly when considered alongside the context of the other changes to local government funding that will be happening at the same time. As a minimum we need early assurances around the quantum for local government and assurances that funding allocations will be sufficient to meet need. |
| 6.3 | Local government has taken a disproportionate cut in funding over the last decade compared to other Government departments. This is unsustainable and cannot continue. It is essential that Departmental Expenditure Limits are not set on the basis of previous spending decisions, as this will lock in unfair treatment for local government and will replicate the pattern of sustained underfunding and unmet need. |
| 6.4 | The scope of the review needs to be wider than the current funding settlement as a large proportion of local government funding comes from other Government departments. For example, the Spending Review should also consider the following funding streams:  
  - DfE – DSG, Pupil Premium and Basic Need Capital Grant. Funding for high needs and SEND 0-25.  
  - Better Care Fund / Improved Better Care and Social Care Support Grants  
  - Public Health Grant  
  - New Homes Bonus  
  - PFI grants  
  - Grants for adult and community learning  
  - Local roads, highway condition and pothole action allocations  
  Currently funding allocations are not co-ordinated across government departments and the relevant departments are not working cohesively to ensure timely, relevant and sustainable funding announcements for local government. |
| 6.5 | There is significant evidence of sustained underfunding across local government. This has led to unprecedented spending pressures that will have a knock on effect to other areas, not least the NHS and many aspects of children’s services too. |
| 6.6 | It is clear that the current funding system for local government is complex and unsustainable. Redistributive reform is long overdue. We hope that the Committee will address the issues that we have raised and give impetus to the major reforms that are needed. |

April 2019