Written evidence submitted by Plymouth City Council [FSR 101]

Local Government and practitioners will always strive to have a fair, open, transparent and simple system for allocating resources. However even if such a system could be devised and agreement reached it is academic unless the quantum of resources available to local government is addressed. This is fundamental to a sustainable system and has to be the starting point for any review.

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?

Lessons to be learnt are that past reviews and changes have been overly complicated and creates uncertainty during the review period. The current formula is too complex, and it is not easy to see how all the elements of funding fit together.

Like all other authorities, Plymouth has had unnecessary difficulties created by central government from late and ad hoc changes to funding, particularly to business rates. An increasing share of funding has been distributed through incentives such as New Homes Bonus and Business Rates growth, which create longer term planning issues due to the uncertainty of future government policy and support for such schemes.

In addition there has been inadequate presentation of options and exemplifications for proposed changes during the review period and options are presented too late in the financial year. As an example final options presented in December for an April implementation is too late - a minimum of 6 months is required if not longer.

The greatest cost drivers which have the most affect are not given sufficient weighting in an era of ongoing funding reductions. Additional resources should be directed to volatile services such as Adults and Children’s. This is exemplified by the apparent lack of understanding or analysis of how demand has changed with reforms to the welfare system.

We are looking to the Fair Funding Review to replace the old, overly complex allocation methods with something where it is possible to see how everything has been calculated, and how everything fits together. We want to be able to see how our allocations have been calculated, even if the underlying methodology is complicated.

In recent years, the multi-year (four year) settlement has been very useful because it has provided us with a baseline level of certainty. This has been undermined to some degree by the late announcement of new funding and late announcement of council tax limits. The uncertainty and complexity have had major impacts on all authorities’ confidence in their funding forecasts. We would expect some degree of uncertainty about future years, but not to the extent where we are advising elected Members that we cannot commit resources until we are sure we will receive them.

Government policy overriding the basic funding model around Council Tax is one example.
- The introduction of the Council Tax Freeze Grant to encourage authorities not to increase the burden on local tax payers;
- The subsequent change of policy to roll the freeze grant into the RSG;
- Then followed by the Council Tax increase cap and assumptions in the Government’s “Spending Power” calculation that all authorities have set their tax at the maximum.

The recent introduction of the Adult Social Care council tax precept has placed yet more burden on tax payers. The use of a precept to fund social services means that the funding source is now divorced from the actual needs.

Plymouth has 86% of its billable properties in the A-C council tax band, of which 40% are band A. A 1% increase in council tax only raises approximately £1m of additional funding; the maximum 3% precept therefore yields £3m which does not cover the annual impact of the National Living Wage on provider contracts.

The transfer of the Office of the Director for Public Health from the NHS to local authorities is another example of central government overriding the basic funding model. The transfer has led to the inevitable funding reductions, each year, with little or no regard for the long term effect on prevention services.

The prolonged damping effect built into the current formula destabilises the overall funding allocations. The intervention on negative RSG is also a factor. The government undertook a consultation on negative RSG in September 2018. As part of the review Plymouth said:

“Negative RSG is a consequence of the government’s decision to change the Methodology used for allocating Revenue Support Grant, introduced in 2016-17, which rightly sought to ensure that authorities delivering the same set of services received the same percentage change in funding by taking account of the main resources available to them, rather than focusing only on revenue support grant. Negative RSG therefore affects only those authorities who have the strongest business rates and council tax bases and therefore have been least dependant on government grant and therefore most insulated from the effects of austerity to date. Plymouth does not agree with the proposal to use foregone rates taken from the central government share within the overall amount of business rates – amounting to £152.9m. Plymouth recognises this is not a direct reallocation of resources but it is a loss in relative terms in that this money could be reallocated to all local authorities based upon need. It is recommended that the government look at alternative options which include the allocation of additional funds into the system allocated on relative needs.”

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?
The Business Rates Retention system is overly complex, and exposes local authorities to the risks of factors beyond their control such as backdated appeals and central government policy changes. Plymouth, as part of the Devon Business Rates Pool, was selected to participate as a pilot in 2018/19 with 100% retention. Our subsequent bid to continue as a pilot through 2019/20 has been rejected. Running as a pilot for only one year has given Plymouth very little insight into how the new scheme will impact on our resources.

Plymouth has long argued that the use of “windfall funding” such as the Improved Better Care does not support planned service delivery. What is needed is long term sustainable funding sources. It also places a further burden on local authorities who are required to complete, as a minimum, quarterly returns detailed how the additional funding is being spent. We also have to confirm each year that the ASC precept is being applied to the provision of social care. This is unnecessary and overly bureaucratic.

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?

There have been a number of issues with respect to the unfairness of a council tax system and assumptions the government made with respect to a local authority’s spending power. This is particularly important when considering authorities with a low council tax base and a greater proportion of properties in bands A to C. Despite an attempt to remove the number of specific grants which form part of the local government finance system, there are still too many annual ad-hoc grant allocations e.g. within Adult Social Care which have not been built into the base budget. This has significant impact upon an authority’s ability to plan for the medium term.

Rumours and uncertainty about core funding is unhelpful. New Homes Bonus is part of most local authorities core funding but is time limited and its future in question which impacts upon longer term financial planning.

Local authorities have developed good commercial skills and income generating opportunities. Some have had a positive impact on local economies but if local authorities are to become self-reliant greater freedoms and flexibilities are required which should include commercial activities outside of their geographical boundaries.

4. 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?

Traditionally local government has been dependent upon government funding albeit this has changed with the introduction of Business Rates Retention. Whilst incentivising economic growth is important, an over reliance on growth can be to the detriment of a needs based system where there is limited opportunities for significant growth opportunities. High needs authorities will always need support to deliver their
core statutory obligations. The Spending Review must address the funding gap for Social Care.

Plymouth firmly believes that all additional rate retention resource should not come with additional responsibilities. Business rates retention is overly complex. We support the proposed new scheme of Business Rates Retention but ask that alternatives for growth measurement need to be considered, including enhanced growth for small rate base authorities such as Plymouth.

We also request that 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.

Plymouth has a strong reliance on both its position as a visitor destination and on the university students who have chosen us for their studies. With this in mind we ask that due recognition must be made of the additional costs associated with providing services to this transient population, including:

- Concentrations of Deprivation
- Student populations
- Environmental and waste challenges
- Demand from non-resident daytime populations

For any revised funding model, we would expect some degree of certainty about future years with longer funding horizons.

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