1. Introduction

1.1 Centre for Cities is the leading think tank dedicated to helping UK cities achieve their economic potential. Our research focuses on the UK’s 63 largest urban areas, including some places such as Mansfield and Barnsley that are not traditionally called cities. We are grateful to the committee for the opportunity to submit written evidence to this important and timely inquiry.

1.2 Our Cities Outlook 2019 report focused on how a decade of austerity has affected local authority spending up and down the country. Its findings, in summary, are of particular relevance to the committee’s inquiry:

- Cities have been hit the hardest by local government austerity, over and above other areas of local government, and cities most reliant on grant have been least able to replace them with other income
- The reduction in grant funding, coupled with an increasing demand for statutory services like social care, means that urban local authorities are at risk of becoming little more than social care providers
- The coming Spending Review must mark the end of austerity for local government – fairer funding must mean more funding for cities while social care funding reforms are now urgent, and must face no further delays
- Councils have managed as best they can but if cities are to fulfil their economic potential they must have more certainty, freedom and flexibility over their income – without fear of being penalised for entrepreneurialism

2. 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.

2.1 Cities Outlook 2019 found that reductions in public spending between 2009/10 and 2017/18 have not played out evenly across the country. Across government departmental spending, local government in England bore the biggest burden of austerity, with its budget being cut by more than half between its peak in 2009/10 and 2015/16.

2.2 Cities have been particularly hard hit. As a whole, there has been an 18 per cent fall in the day-to-day spending by local government in cities between 2009/10 and 2017/18, compared to a 9 per cent fall elsewhere. This meant that British cities – home to 55 per cent of the population – have shouldered 74 per cent of the total cuts to local government’s day-to-day spending. On a per capita basis, this equates to cuts of £386 per person in cities compared to £172 per person elsewhere in Britain.

2.3 Cities in the north of England were much harder hit than those elsewhere in Britain. Seven of the 10 cities with the largest cuts are in the North East, North West or Yorkshire, and on average northern cities saw a cut of 20 per cent to their spending. This contrasted to a cut of 9 per cent for cities in the East, South East and South West (excluding London).
2.4 Barnsley has been the city hardest hit by austerity on this measure, with a reduction of 40 per cent in its day-to-day spending on services. This was a fall of around £145 million, which equated to a cut of £688 for every resident in the city.

2.5 On a per capita basis, Liverpool has seen the largest cut. Its £441 million reduction in spending equates to £816 fall for every resident in the city.

2.6 In terms of absolute cuts, London has been by far the hardest hit. The capital has had a total of £3.9 billion removed from services spending. This meant that London accounted for 30 per cent of all cuts in Britain, despite accounting for 16 per cent of the population.

2.7 Services that local authorities do not have to deliver by law have mostly been hit by the cuts. Services such as planning, libraries and culture activities have seen the deepest cuts in cities and non-urban areas alike, with spending on planning and development falling by 41 per cent in urban areas.

2.8 Meanwhile, children’s and adult social care, both being statutory services, have been relatively protected. This is especially the case outside of cities, which have seen an increase in spending in this area.

2.9 Reflecting the larger cuts overall, cuts across service areas have been deeper in cities than elsewhere. This has meant that cuts to all spending areas minus social care have been deeper in English cities. Street cleaning and economic development are two areas that have fallen particularly in urban areas. Street cleaning spending is down 30 per cent in cities (compared to 18 per cent elsewhere), while economic development spending is down 43 per cent (compared to 24 per cent elsewhere).

2.10 As a result, social care has taken up a growing share of overall spending, rising from 38 per cent of spending in cities in 2009/10 to 46 per cent in 2017/18. At the start of the period four cities spent more than half of their budgets on social care. By 2017/18 half of all cities did so.

2.11 At 62 per cent, Barnsley committed the largest share of its overall spend to social care. It also saw the largest increase in the share of its budget being spent on social care, rising 20 percentage points. Reflecting the cuts to overall budgets, it has tended to be cities outside of the Greater South East where social care has made up the largest increases in overall budgets.

2.12 This, in turn, raises important questions for the Spending Review about the future role of local authorities in a city. Are they primarily to be providers of social care? Or are they also the shapers and custodians of their place?

3. 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.

a. Central government grant

3.1 The main driver of the cuts to local government spending has been cuts to central government grant. How these cuts have been implemented has shaped the geography of spending cuts set out above.
3.2 When austerity measures were first introduced, the cuts to the main grant in England were broadly similar in percentage terms across all local authorities. But the varying dependence on grants of different authorities meant that these cuts played out very differently across the country. This is because a 10 per cent cut to Hull, say, where around half of its income came from grant, is a much larger cut to overall income than a 10 per cent cut in Worthing, where around a fifth of income came from grant. Added to this, a number of specific grants were scrapped completely in England. One example is area based grants, of which 65 per cent were given to cities in 2009/10.

3.3 The outcome was that those English cities most reliant on grant saw the largest cuts in their spending. This resulted from their higher spending requirements (due to the make-up of their resident populations) and their more limited ability to raise money locally through council tax and charging for services.

3.4 A change in approach since 2016/17 has partially addressed this, and there is now much less of a link between dependence on government grant and spending cuts. But this has not reversed the unequal cuts applied between 2009/10 and 2014/15. Fairer funding for local government should mean additional funding for cities such as these – we comment on this further below.

3.5 In addition, as the committee has acknowledged, there must be reform of the way social care is funded. Local authorities should be more than just providers of social care. It is clear that the current model of funding social care is unsustainable, given the current pressures on it, the likely growth in demand and its crowding out of spending on other local government responsibilities. The status quo – particularly in cities such as Sunderland and Blackpool – cannot continue if we want local authorities to provide a range of services and support economic prosperity.

b. Council tax

3.6 In terms of council tax, there are two ways cities can increase revenue – by increasing council tax rates, and by increasing the number of homes in their area. But councils have been restricted from increasing council tax bills by central government. This has taken three forms:

- Encouraging council tax freezes. In England, this took the form of offering those setting a freeze extra grant, which was in place between 2011/12 and 2015/16.

- Limiting the increases in council tax unless approved via a local referendum. From 2012, English councils could only increase council tax by more than 2 per cent (in cash terms) if this increase was approved via a referendum. This has since been increased to 3 per cent, with an additional 3 per cent levy to pay for social care now also permitted.

- Reforms to council tax relief, which abolished Council Tax Benefit and devolved the decisions about how to give support to low-income families to councils through the new Council Tax Support grant. The impact of this has been to reduce council tax take.

3.7 Some have been able to increase their council tax base as a result of house building. Reflecting differences in demand for new homes across the country, there is a clear geography to this. Cambridge leads this list, with a growth of 15 per cent in the number of taxable homes. And eight of the top 10 are in the south of England.
3.8 Local authorities should have greater freedom in how they raise funding. The most obvious way is to remove caps on increasing council tax and introducing new bands, allowing local authorities to set tax rates to match the service needs of their areas.

c. *Business rates*

3.9 The government has also shifted the way that local government is funded through the part localisation of business rates. While this has in no way offset the scale of cuts imposed, it does reduce local authorities’ reliance on central government grant and allows them to grow their incomes by increasing the size of their economies.

3.10 Enabling authorities to benefit from the growth in their areas is a positive move. But the shift to larger shares of income being generated locally does pose a particular challenge for those places that have weaker economies and so are likely to struggle to expand their tax base to offset decreases in grant.

3.11 The Government should:

- Incentivise local authorities to capture the change in property value by allowing them to retain or lose business rates resulting from changes at revaluation. This would encourage them to improve the quality of their business environment, for instance by improving their public realm, infrastructure and transport. As such, firms would get direct benefits in return for paying their rates, therefore aligning their interests with those of local authorities.

- Simplify the system to make it more efficient and responsive. There are two ways to do this:
  
  i. implement more frequent revaluations, as has been done in the Netherlands, to make the system more responsive to market change, more predictable for businesses, and easier to understand;
  
  ii. remove the cap on the total yield generated to allow local authorities to capture real rateable value growth and for more money to be generated and redistributed.

- Allow places that contribute to share the rewards and the risks. Within city-region economies, different areas play different roles, such as city centres and industrial zones (home to businesses) and residential areas (home to workers). By pooling business rates revenues together, local authorities that are mostly residential would have an opportunity to benefit from the economic success to which they contribute.

d. *Other income*

3.12 In response to both the cuts in grant and constraints on the ability to increase council tax, a number of councils have turned to raising money by other means.

3.13 One way has been through profit earned from companies owned by councils, which has increased from £86 million in England in 2009 to £412 million in 2017/18. Just over 70 per cent of this increase was from city authorities. Another has been property investment, with a number of cities converting cheap borrowing from the Public Works Loan Board into a revenue stream from the investment. Income from investments rose by £290 million to £1.2 billion in 2017/18. All of this growth was a result of the activities of city authorities.
3.14 This growth has been relatively modest though in light of the cuts to funding. Combined these increases equated to around 5 per cent of the cuts to total spending that English local authorities have implemented since 2009/10.

3.15 There has also been a modest shift to charging for access to services. Sales, fees and charges funded 16 per cent of all spending in English and Welsh cities in 2017/18 (around £6.7 billion), rising from 14 per cent in 2009/10. Planning and development is the area that has seen the largest increase in its spending coming from this income source, with a 15 percentage point increase.

3.16 That said, some cities have seen relatively large increases. York has seen the largest increase in sales, fees and charges as a share of overall spending of any English city, with an increase of 12 percentage points. This meant that a quarter of its spending was raised from this source in 2017/18, more than any other city. York though was somewhat of an outlier for northern cities: eight of the 10 cities that saw sales, fees and charges increase their share the most were in the south.

3.17 How this money is spent is restricted, with most of it having to be spent in the area that it has been raised. For example, most money raised from parking charges must be spent on transport. In Manchester, for example, this means that the £35 million raised through parking in 2017/18 could not be used to ease pressure on other service lines. This blunts the usefulness of being able to raise money to support service provision.

3.18 The Government should allow sales fees and charges raised in one service area to be spent on any service area. Having the ability to raise money in one area does next to nothing to address shortfalls in funding in other areas because it can’t be transferred. Councillors should have the freedom to make their own decisions about how to best allocate this spending to improve the overall level of service provision in their areas.

4. 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.

4.1 The purpose of the Government’s funding formula for local government should be to secure a good standard of well-run public services across the country based on an assessment of need and demand for those services.

4.2 Cities are home to the majority of people living in England but what the Government is proposing in relation to the formula, no matter how you look at it, fundamentally misjudges the needs of cities. That is even starker when set against the impact of austerity on cities outlined above.

4.3 The Government proposes allocating resources to places based on the size of their populations. While ostensibly this appears to reflect a ‘more balanced’ allocation of local government funding, it does not adequately resource the higher levels of demand for public services that tend to be seen in cities, compared to other parts of England. Although the needs assessment in the consultation is currently focused on accessibility and remoteness, which does have a geographical bearing, it does not identify how demand for public services per capita is higher in some places more than others.
4.4 While spending in cities has seen double the level of cuts that places elsewhere in Britain have experienced, cities still have higher spending on a per head basis than elsewhere. The cuts have served to close the gap between the two. On the face of it, this has increased fairness in the system, but it actually ignores two important factors – the ability to raise money, which as we have set out above varies a great deal between places, and need.

4.5 Because of the make-up of their population, need in cities is much higher than elsewhere. What we know is that demand for public services is much higher in poorer communities. What we also know is that these communities are clustered in cities. Of all the people living in the top 10 per cent most deprived communities in England, 83 per cent of them live in cities. By comparison, of the 10 per cent least deprived communities, just 40 per cent of residents live in cities. In Liverpool, close to half of its population live in England’s most deprived communities, while just 0.3 per cent lived in the country’s least deprived areas.

4.6 At the same time, cities are the most productive places in England, responsible for 65 per cent of economic output. They attract people in for employment, to shop, for tourism and to spend leisure time, placing additional demands on services in cities. The formula should therefore reflect the real geography of need across England, recognising that demand for local authority services is concentrated in cities.

4.7 While not all cities have higher levels of social and economic need, those that do should not be penalised for this. The Government should distribute money for public services to the places that need it most, while at the same time working to reduce the causes of high demand.

5. 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.

5.1 Grant reductions have improved local government efficiency (despite recent declines, almost two-thirds of people remain satisfied with their council) but the scale of these cuts, combined with the lack of flexibility for councils to respond to them and the rise in demand for social care, have put significant pressure on service provision.

5.2 This is especially the case in northern English cities, which have both been hardest hit by the cuts and have found themselves least able to respond to them because of weaknesses in their economies. But addressing the situation is not just about giving local government more money. As we have set out above, as well as signalling the end of austerity for local authorities, the Spending Review also needs to hand councils additional flexibilities and freedoms.

5.3 Currently, local authorities are given year by year budgets and must balance the books each year. This creates uncertainty and makes future planning more difficult, as illustrated by the recent delay in announcing the local government finance settlement for 2019/20 as a result of Brexit. Setting longer term budgets, with three or five year time horizons, would give both greater certainty and more flexibility to authorities they manage their budgets between years.

April 2019