Written evidence submitted by Hampshire County Council [FSR 018]

Executive Summary

- All councils are in a difficult financial position, due to the combined effect of grant cuts, demand pressures (especially in social care) and inflationary pressures. This results in the required savings being much higher than just the grant cuts alone.

- The situation is particularly severe for county councils, due to the funding system unfairly allocating them a much lower level of funding per person than many other councils.

- Some improvements can be made to the funding system but the focus needs to be on getting the Spending Review to put sufficient funding into the system, both at a national level and for individual councils.

- The current assessment of funding needs is poor and over dominated by deprivation. It lacks understanding of the drivers of costs for county councils. It is vital that the Fair Funding Review addresses this.

About Hampshire County Council

1. Hampshire County Council is one of England’s largest county councils, providing upper tier local government services to over 1.3 million residents. In common with councils across the country, we have had to find substantial savings in recent years as a result of Government grant reductions and the need to resource pressures.

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. All councils are in a difficult financial position, due to the combination of reductions in Government grants and the need to find resources for pressures, especially increased social care demand for adults and children. Inflationary pressures from pay and price increases have substantially added to the strain, especially the impact of the National Living Wage on staff and supplier costs, which have not been funded by the Government.

3. All these pressures mean that the amount of savings we have had to find is much higher than just the sum of our grant cuts. Since 2010 we have had to make about half a billion pounds in savings, with more required over the coming years. We have made efficiencies (such as reducing office space) and been innovative (such as sharing and selling services) wherever possible. However, the scale of savings required has been so large that reductions have unfortunately had to be made to non-statutory services.

4. The savings have been particularly hard for county councils to make as we receive a much lower level of funding per household, both before and after
council tax income is taken into account, than councils in many other areas. Council spending power per household in Liverpool for instance is about a third higher than in Basingstoke. Hampshire County Council does not even receive a single penny of Revenue Support Grant any more. This is due to the current funding system insufficiently recognising the demands faced by county councils (paragraphs 12 and 13 discuss this in more detail). Those who claim that councils in other areas are in more difficult circumstances constantly omit to mention that county councils are much less generously funded. We do not doubt that all councils are in a tough position, but it is not a coincidence that poorly funded county councils are where the first warnings have come from about potentially having to reduce services to the statutory minimum.

5. Schools provide a useful lesson about the underfunding of shire areas by funding formulas. In recent years, attention has been drawn to the huge variations in the amounts allocated by the schools funding formula to pupils in different areas. Parents in shire areas are rightly annoyed that multiple governments have used formulas which value the education of their children as worth less than of those in other areas. Schools are just one of the many cases of the underfunding of shire areas and if it isn’t acceptable for schools then it isn’t acceptable that it should continue for other local services.

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.

6. The local government funding system has evolved over several centuries. Although not perfect, it does contain many good aspects, such as having taxes that are relatively straightforward to understand and collect. The key issue at the moment is that the total amount of funding coming through the system is insufficient to meet the demands which local authorities are facing. Some improvements can be made to the system but what matters really is the total amount of funding which is assigned to local government in the forthcoming Spending Review. The level of Government funding, both through general and specific grants, needs to be made adequate.

7. There is clearly no appetite nationally for any major overhaul to be made to the council tax system. Some changes have been made to the business rates system in recent years, such as increasing relief for small businesses, but it seems unlikely that more significant changes will be made any time soon. We are concerned though about the impact of online retail on our high streets and the sustainability of the business rates system needs to be kept under review.

8. We support increased local retention of business rates. The Government’s proposed reforms are a step in the right direction but we would like them to go further. It is currently planned that the changes will be revenue neutral (by adjusting other grants), so the only potential extra income will be any growth gains, and even these will only be kept for a few years before being redistributed away. It is thus not a solution to the current funding pressures, unless the
Government shifts its stance on revenue neutrality and instead gives the extra rates as a funding boost.

9. Ideally, we would like to see the Spending Review put extra funding into local government but, recognising that our wishes are unlikely to be fully met, enabling councils to introduce modest charges for some services may enable more services to continue. Many users would prefer this rather than see services cease. We have suggested to the Government that £10 could be charged for a five-year bus pass, with the funds raised used to help to pay for community transport. Similarly, a small £1 charge for each visit to a Household Waste Recycling Centre would help keep some sites viable to provide. Cost pressures could also be reduced if the Government reviewed historic duties to ensure they remained appropriate.

10. Regarding other jurisdictions, many countries around the world have similar styles of funding local government, such as property-based taxes. However, the amount of control exercised by central government over local government is extremely high in the United Kingdom compared to elsewhere, such as tight control over what are supposed to be local taxes. Local authorities thus have little power at present to make their own improvements to the funding system.

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.

11. No attempt is currently made nationally to work out the overall level of resources required by local government to deliver a certain level of outcomes. Instead an amount is simply negotiated within Whitehall. The formula used to share out general funding between councils also studiously avoids asking how much is really needed, with allocations based on relative need (as opposed to actual need). This has been the approach since at least the 1920s; funding formulas based on an assortment of statistical indicators were introduced to avoid having to answer the question of how much funding local government really requires.

12. Unfortunately, no change to this is foreseeable any time soon. Even with actual need disregarded, the assessment of relative need is highly unsatisfactory at present, so we support the Government’s Fair Funding Review. The current formula is out of date and dominated by deprivation indicators, some of which are highly dubious, such as the use of unemployment statistics to direct some adult social care funding. This channels funding to major urban conurbations at the expense of county councils. The problem is exacerbated by the use of the same formula to allocate some major specific grants, such as the Better Care Fund.

13. Deprivation is a factor in demand for some services but the drivers of demand for council services are of course rather wider and also more nuanced. Younger adults requiring care are for instance likely to have low levels of assets and qualify for council funding, regardless of whether they live in an area which overall is viewed as prosperous or deprived. To give another example, home to school transport costs are much higher in rural areas, as a greater proportion of children meet the statutory eligibility criteria for free transport (based on distance
to school and whether there are safe walking routes). Keeping on a theme of age, county areas also have an above average proportion of older people so are particularly susceptible to adult social care pressures, whereas many cities tend to have younger populations. It is vital that the new formulas for general and specific funding properly recognise cost drivers such as these rather than regressively perpetuating past underfunding.

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.

14. The main thing which the Spending Review needs to provide is sufficient funding for local government as a whole, with this then fairly shared out between local authorities (using a new fair funding formula) so that the resource requirements of each individual authority are met. A significant injection of funding is needed in order to fully fund social care pressures and leave authorities with sufficient funds remaining to provide services which may be non-statutory but are highly valued by our residents.

15. The timing of the Spending Review is important. Local authorities have not yet received any indication of funding levels for 2020-21 or beyond. We consequently face a cliff edge and have no certainty about what level of future savings we will have to make. An indication of future funding levels as soon as possible would consequently be very welcome. A multi-year settlement would also be extremely helpful, as a one-year settlement will just push the cliff edge of uncertainty along a year. We note that the Government intends to publish a three-year Spending Review but this is very much dependent on Brexit.

April 2019