Executive Summary

- MHCLG continue to look backwards when funding current and future services, meaning that cuts have been made with little to no regard to present or forecast demand.
- The result of this strategy has been to create an uneven landscape of eligibility, fee structures and service levels across local authorities.
- Not only is this inequitable but it is also unlikely to be achieving the best outcomes for the funding available.
- SCT have been calling for a change in the construction of baseline funding allocations, from ones which model the “what is” to ones that look to the future and model “what ought to be”. This approach would get to the core of what services need to look like and help understand the drivers of demand.
- Counties are yet to be convinced of the link between growth in demand for services and growth in business rates (income).
- Local authorities are reliant on an income stream which doesn’t track demand and council tax, which is widely accepted as being a regressive tax.
- Local Authorities have far less freedom over their budgets than that imagined. Referendum principles (Council Tax), the business rates multiplier and eligibility for discounts are both set by central Government.
- The LGA are predicting a huge gap in funding. This needs sustainable, well targeted funding – not one-off allocations using out-of-date methodologies.
- The 4-year settlement offered certainty of funding, but it was set against a backdrop of disappearing revenue support grant. 2019-20 was the 4th, final, year of the settlement and without further indications about future settlements local authorities are finding it nigh-on impossible to plan.
- The Spending Review must encompass all funding streams to ensure money is well spent but must also be forward looking – reflecting the changing demands on the sector.

Full Response

1. The Society of County Treasurers (SCT) represents the chief financial officers of the twenty-seven county councils in England as well as eleven unitary councils that share similar interests in local government issues. Together, these authorities represent 47% of the population of England, 24 million people, and provide services across 86% of its land area, 43,000 square miles.

Introduction

2. The Society are supportive of the inquiry’s aims of establishing how effective the existing funding mechanism for local government is, both now and in the future. However, we would like to highlight that this is not the first inquiry of this type. Since 2013, when the current regime of business rates was introduced, there have already been 2 inquiries into 100% Business Rates Retention. These inquiries and calls for evidence, together with those of the IFS and NAO into the financial sustainability of the sector, have all concluded with recommendations that are both insightful and welcomed by the sector.

3. However, from where our members sit, there has been very little resulting change for the sector. The Ministry appears not to understand the drivers of demands or the pressures that the services are under. Instead preferring to look to the past rather than plan for the future. This behaviour has resulted in staggeringly different financial situations across the country; indicative of a system which has become increasingly unfair as these choices become further
and further entrenched. Funding allocations have become reactionary with local services now heavily dependent on one-off funding allocations.

4. As the committee will be aware; funding for Local Authorities comes via a multitude of sources – not just the MHCLG and council tax. For the inquiry to obtain a full picture of the funding challenges facing local government the remit of the inquiry must be widened to encompass consideration of funding from other government departments. This is covered further in paragraph 33, below.

5. We would also like to expose a myth that local authorities are on a path to self-sufficiency. Central Government still yields significant control over major areas of local government funding. Successive Governments have continued to exert influence on local government to deliver national policies, retaining control over tax increases, eligibility criteria for council tax support, for discounts and exemptions. Policy for reliefs for business rates is likely to remain a central Government decision and so too the control over the multiplier. All these national controls are in opposition to local decision making, accountability and the responsibility for the delivery of local outcomes.

6. As Revenue Support Grant disappears to be replaced by retained business rates, there remains no link between the economic health of an area and the demand placed on statutory services, such as Adults Social Care and Children’s Services. The funding cuts to date have been made with little recognition of demand or resilience and the Society would still argue that the formulae used to set funding baselines are too backward-looking and do not recognise the true demands on local authorities – meaning that residents can experience inequitable levels of services as well as charges for those services.

**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.**

7. Since austerity began the cuts to local government have been applied, seemingly with no reference to an authority’s demands, pressures or resilience. The work of the Fair Funding Review has been ongoing for a number of years and the local government media is full of reports from various factions of local authorities arguing why the cuts have been crueler for them than others. Again, looking backwards rather than forwards. The SCT has long been campaigning for a review of local government funding - moving away from looking at “what was”, locking in past funding and perpetuating the current distribution to considering “what should be” and funding a service where access and quality of care is uniform across the country.

8. The cuts in recent years have caused some authorities to report significant problems despite fully utilising council tax income. Whilst on the other hand, in other areas of the country, council tax can be significantly lower than the England average and services which levy a fee in most areas are offered free for all residents.

9. In 2016 local authorities with responsibility for delivering Adult Social Care were able to add an additional levy onto council tax bills. Almost all areas of the country took up the Government’s offer. All, aside from a handful of councils who have never charged the “Adult Social Care Levy”. All SCT members charged the levy to their residents – many because they felt they didn’t have a choice. The rapidly aging populations in rural areas are pushing the service to breaking point. The SCT questions how a system which perpetuates such disparities can be fair.
10. There is a myth within the sector that “counties are rich” and “metropolitan districts are poor”. This is not the case and it is unfair that residents can pay such a wide variation in council tax, bearing no resemblance to what is equitable or affordable.

11. Residents in shire areas pay, on average, the highest Band D council tax bills in the country. In 2019-20 the average Band D bill paid by residents in shire areas is £1,818, a staggering 42% higher than Band D bills in Inner London. However, the median income in Inner London is £34,000 - 38% higher than the median in shire areas (£24,592).

12. However, it is not just council tax where the distribution seems inequitable. The following table was produced by the County Councils Network (CCN) as part of their A Fairer Future for Counties campaign. It should be noted that the SCT are not advocating or suggesting a flat per-head funding allocation but merely suggesting that, when combined with the disparity in Band D council tax figures, these funding differences appear highly geared away from shire areas.

<table>
<thead>
<tr>
<th>Council type</th>
<th>2019-20 per-head funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>£437</td>
</tr>
<tr>
<td>Metropolitan Boroughs</td>
<td>£319</td>
</tr>
<tr>
<td>Unitary Authorities</td>
<td>£225</td>
</tr>
<tr>
<td>CCN Counties</td>
<td>£153</td>
</tr>
</tbody>
</table>

13. The LGA have estimated the funding gap facing the sector in 2019-20 to be £3.1bn rising to £8bn by 2024-25. Local authorities deliver statutory services that affect vulnerable people’s lives and futures. This gap needs to be addressed in the 2019 Spending Review – and not just with one-off pots of funding, but sustainably, allowing local authorities the ability to plan and deliver the services that their residents need. When authorities receive one-off funding, it leads to short-term decision making rather than long-term solutions.

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

14. Ever since its inception in 2013 and development in the preceding years, the SCT has been concerned that there is no link between increasing business rates income and increased demand for services. This view is widely accepted in all sectors.

15. Council Tax is a regressive tax with bills bearing little relation to a resident’s ability to pay. Many think tanks and institutions have proposed solutions to this issue of local taxation (local income tax, mansion tax, flat rate levy on property value, further bands added to the top of the scale, increased rate of VAT); but all are quickly ruled out without further serious discussion and consideration. If council tax is to be retained, then its tax base needs to be updated to reflect current property prices with additional bands added to the current eight. We would also request that the inquiry considers what flexibility can be offered within the current regime; some local surveys have indicated that residents would prefer increased tax bills to local service cuts, but the legalities and costs of holding a referendum can prove prohibitive.

16. It is the Government’s stated aim that local authorities should one-day be “self-sufficient” and no longer reliant on central government support. However, given the divergence of
need and income from business rates, the central control and the continued preference for a regressive and out-of-date property tax, to become successfully self-reliant seems improbable.

17. Local authorities can be hugely different – both in terms of the wealth of their residents and the services that they require. Therefore, there is always going to be an element of redistribution within the system which is of critical to achieving a fair distribution. The reality is that, despite the aim for all local authorities to be self-sufficient, there is very little flexibility/discretion on how we provide services. Government mandates much of our income (see paragraph 5) and residents expect standard levels of provision.

18. Local government has long asked for multi-year settlements and whilst the cuts outlined in the 2016-17 4-year settlement were not welcome, the fact that it covered multiple years was welcomed in principle. The 4-year settlement was seen by most as the “worst case scenario” but it did support proper medium-term planning. However, this certainty was set against a policy of withdrawal of RSG to be replaced by a 100% business rates scheme. The majority of local authorities only signed up to the offer on the basis that it provided a minimum position for the 4 years for planning purposes.

19. 2019-20 was the 4th year of a 4-year settlement offer for local government, first published in 2016-17. Over those 4 years the 2019-20 settlement (used as an illustration) attracted an additional £1.16bn\(^1\) funding compared to that originally expected in 2016-17. Not only is this indicative of a funding system which is not able to react to pressures, but all of this additional funding is one-off meaning that it would be imprudent to build it into base budgets.

20. The position the sector now faces is that 2019-20 is the final year of the settlement and, as yet, there are no indications as to which funding streams are continuing and which are ending. The proposal for Business Rate Retention is for a 75% scheme to be implemented rather than the 100% scheme originally announced.

21. One-off funding does not enable or support proper service planning for any services, in particular those of social care where commitments to care packages cannot be withdrawn once funding disappears. The short-term nature combined with late announcements (see paragraph 22) also fails to provide sufficient time for councils to adequately plan, consult and implement savings proposals, particularly where there are enhanced consultation obligations such as in the provision of support to children with SEND.

22. Funding announcements are frequently made very late in the budget-setting process. Local Authorities receive significant pots of money from various Whitehall departments, but sometimes these aren’t announced until into the relevant financial year. In one year, the Chancellor at the time announced an in-year cut to public health grant in June of that year, some 3 months after the start of the financial year. This makes proper planning extraordinarily difficult and cannot, in any way, be described as appropriate.

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.

\(^1\) £152.9m cancelled “Negative RSG”, £337m additional improved Better Care Fund, £16m Additional Rural Services Delivery Grant, £240m Winter Pressures Grant and £410m Social Care Support Grant.
23. The current baseline funding assessments have not been revisited since 2013-14 when the business rates baselines were set. At the time they were based on the 4-block model, which is no longer in operation. This model contained formulae which are now long out-of-date and, even at the time, based future funding allocations on past spending decisions. When funding allocations are calculated in this way it perpetuates any systemic under/over funding. It also, due to the backwards-looking nature, is not good at forecasting future needs.

24. The SCT have been calling for this methodology to end and for funding allocations to be based on the services that should be available for certain client groups. Representatives of the Society have been active members of all the Fair Funding Review’s working groups, including the needs working group and the steering group. When the SCT has shared this desire for a more “normative” approach there has been broad support amongst both local and central government, yet we are disappointed to see that the Ministry’s preferred option for the updated Adult Social Care formula is one based on past activity and that the “normative” approach is ruled out.

25. There is likely to be a need for transitional arrangements between the current shares of funding and the revised shares and this will be critical to the success of the review.

26. In recent times the parliamentary timetable has been taken up with the business of leaving the EU and it is now looking possible that there may be a delay to the Spending Review and even the Fair Funding Review. If the Spending Review, or the Fair Funding Review is to be delayed then the sector needs to be told at the earliest opportunity. A decision should be made soon about whether a delay is necessary and what arrangements will be put in place in this instance.

27. The long-awaited proposals on social care funding have now been delayed for the 4th time with no clear timetable for publication. This potential delay would further compound the uncertainty of one-off funding announcements in recent years and, given the vulnerable client groups affected, should not be acceptable. The sector needs a sustainable solution to the services under the most pressure – namely Adults, Children's Social Care and SEND.

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.

28. The 2019 Spending Review needs to be published as soon as possible given the additional changes facing the local government sector. Publishing the outcome alongside the Autumn Budget does not allow sufficient time for prudent and rigorous financial planning, nor will it allow time for local authorities to carry out public consultation on budget plans.

29. Additionally, but also importantly, the Government need to stop basing funding allocations on the spending decisions of the past. This merely replicates the funding patterns and fails to address unmet need. Stop looking at “what has been” for the answer and determine “what needs to be” to establish a future-proof funding system with service users at its heart.

30. Our members are also reporting increased demand for infrastructure projects – new roads where new houses have been built, new schools and other facilities where populations are growing as well as the on-going pressures of maintaining the current road network and existing buildings. Local authorities are also investing in broadband provision, ensuring that
those in rural areas are not left behind. Investment in infrastructure will continue to be a key function over the next 10 to 20 years and the Spending Review must reflect this.

31. The current system has created an uneven landscape of eligibility, fee structures, and service levels. Not only is this inequitable but it is also unlikely to be achieving the best outcomes for the funding available. A normative approach will get to the core of what the service aims to deliver, helping everyone understand the drivers of demand and how needs can best be addressed.

32. The scope of the review needs to be wider than the current settlement funding – much of local government’s funding comes from other government departments but it all needs to be spent wisely. When departments don’t co-operate, and grant announcements are made late, then that makes service planning even more difficult.

33. For example, aside from Business Rates, council tax, and in some cases RSG, our members also receive grant funding from:
   - DfE – DSG, Pupil Premium and Universal Infant School Meals Grant Funding, and Basic Need capital grant
   - DH - Better Care Fund, iBCF and Public Health
   - DfT – Pothole funding
   - MHCLG - New Homes Bonus & PFI Grants
   - Skills Funding Agency - adult and community learning grants
   - Education Funding Agency (EFA) - 6th form funding

34. Together, these additional grant streams make up a very significant element of a local authority’s budget. In 2018-19, SCT members financed an average of just 13% of their revenue spending from RSG and retained business rates. For six SCT members that figure was less than 10%. For this reason, the SCT feels that it would be hugely beneficial to the sector if the inquiry considered these additional grant streams when addressing the issues facing local authorities.

35. And finally, there is ample evidence of the extent of underfunding in the local government sector. This has been well rehearsed and evidenced. There are very significant spending pressures in local government which have knock-on impacts to other areas, not least the NHS, and many aspects of Children’s Services too. These pressures need to be addressed in the Spending Review.

April 2019

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