

Select Committee Submission

Local Government Finance and the 2019 Spending Review

Summary

- During the period of 2010-15, local government experienced a 40% reduction in grants. However, it is the continuation and intensification of reductions since 2015 that has created the most sustained financial issues for counties. The emerging results of our funding gap analysis by PwC show that between 2018-20 counties face a £3.6bn funding gap.
- Only 33% of County Leaders are confident they can deliver a balanced budget in 2020/21 in the absence of additional funding. A combination of the financial pressures and on-going uncertainty on funding levels, including the continuation of essential funding streams such as the £1.8bn Improved Better Care Fund (iBCF) and reversion to a 1.99% referendum threshold, are contributing to this rapid decline in confidence.
- Our member councils have set out challenging plans for efficiencies and savings for 19/20 and as part of medium-term financial strategies. The scale of the challenge has meant a reprioritising of services and with an increased focus on delivering service reductions and an emerging 'core offer' of statutory services. Counties are witnessing a dramatic increase in expenditure on crisis care, with county councils facing particular structural challenges.
- CCN has long highlighted the funding inequalities across different types of local authorities and thus the impact of how needs are assessed. The emerging results of our study by PwC show that the funding model for local government does not reflect spending need of different councils, with county authorities accounting for 39% of all spending need and having an estimated £1bn of 'unmet needs'.
- Our evidence has shown that the current funding formula fails to recognise 'unmet need' in shire counties; has an urban bias when assessing deprivation; has an excessive weighting for density compared to rurality; and an unfair approach to council tax. The overall impact of this is a situation whereby counties will receive £148 per person next year, this is 66% less than councils in inner London (£437 per head).
- CCN supported the overall direction of travel outlined in the recent MHCLG consultation. This includes proposals for the foundation formula; a new approach to recognising the additional costs of delivering services in rural and remote areas; and proposals on council tax equalisation.
- The primary objective of the Spending Review must be to secure an increase in the 'quantum' of funding available to the local government sector. This, nonetheless, must be coupled with the completion of the fair funding review to ensure that all resources are distributed in a fairer, more equitable way.
- Alongside additional funding the Spending Review provides the opportunity to consider a broad range of changes to areas such as removal of the council tax referendum, threshold, a higher share of locally retained business rates, fees and charges flexibilities, reforms to New Homes Bonus (NHB) and greater fiscal devolution. In considering reforms, we would question the current balance between incentive and needs-based funding that has emerged since 2010.

Introduction

1. The County Councils Network (CCN) represents 36 English local authorities that serve counties. CCN's membership includes both county council and county unitary authorities who together have over 2,500 councillors and serve over 26m people (47% of the population) across 86% of England. CCN also provides secretariat and policy support to the Association of County Chief Executives (ACCE). This submission has been developed with their input and is therefore endorsed by ACCE.
2. The authorities we represent are uniquely impacted by the structure of the local government settlement. This has important implications for the Spending Review and this inquiry. Focusing on the terms of reference, there are four key areas this submission explores:
 - **Financial Sustainability**; the extent to which funding has failed to keep pace with growing demand for services at a time of rapidly declining financial resources;
 - **Distribution of resources**; the relative needs assessment and the historic underfunding of county authorities compared to other types of councils;
 - **Incentive-based funding**; the balance of needs v incentive-based funding, and the impact in two-tier areas;
 - **Structural Challenges**; the nature in which two-tier system impacts on the distribution of demand-led pressures and the restricted ability of upper-tier councils to respond to these pressures.
3. CCN has commissioned PriceWaterhouseCoopers (PwC) to undertake an *Independent Analysis Local Government of Spending Need & Funding*. The modelling being undertaken by PwC analyses the spending need requirements for local government, and specific type/tiers of councils, between the years 2015/16 to 2024/25. At the time of writing, this work is nearing completion, but we include some *emerging* findings of the study. A full report will be published shortly and shared with the Committee.

What lessons can be learned from past changes to local government funding in England;

a) the current financial situation of councils

4. Local government has experienced a sustained period of funding reductions, coupled with rising demand, new burdens, and increasing unavoidable costs.
5. During the period of 2010-15, local government experienced a 40% reduction in grants. While this led to significant efficiency savings and service reductions, it is the continuation and intensification of funding reductions for county and county unitary authorities that has created the most sustained financial issues, challenging the short- and medium-term sustainability of councils.
6. In 2016/17, the four-year settlement introduced a new methodology for distributing revenue support grant (RSG). The changes introduced resulted in a significant, unexpected and severe additional reduction in RSG to CCN member councils.¹ As a result of the changes, by the end of 2019/20, CCN member councils will have witnessed a 93% reduction in RSG. When combined with other grants and business rates, CCN councils will have seen a 43%

¹ CCN Response to Provisional Local Government Settlement 2016/17
<https://www.countycouncilsnetwork.org.uk/download/223/>

reduction in funding. This is higher than anywhere else, and double that of London's reduction.²

7. CCN, like the LGA, have focused on expressing the challenges facing the sector using a 'funding gap' analysis. This assesses projected spending need on services compared to anticipated funding, with the LGA projecting a funding gap by 2024/25 of £7.8bn for the sector.
8. The results of our funding gap analysis by PwC show that for the current financial year (2019/20) CCN member councils face a funding gap of £2bn. This is after accounting for funding announcements made in the autumn budget. During the last financial year, it shows that our councils faced a funding gap of £1.6bn. The total gap for these years (£3.6bn) exceeds our previous estimates of a funding gap of £3.2bn between the years 2018-20.³
9. Separate research by CCN has also shown spending pressures outside of the scope of the PwC analysis. For instance, on high-needs provision, growing pressures have resulted in CCN member councils overspending by an additional £175m between 2016-19,⁴ and separate research has shown the cost of SEN home-to-school transport to have risen 30% since 2014.⁵
10. Faced with these pressures, our survey last year showed there has been a dramatic reduction in the confidence of county leaders to deliver balance budgets by 2020/21;
 - **2019-20:** 64% were either confident or very confident they would deliver a balanced budget, with 20% neutral and 16% not confident;
 - **2020-21:** 33% were either confident or very confident they would deliver a balanced budget, with 25% neutral, 25% not confident and 16% not at all confident.
11. The results show that despite Northamptonshire's inability to balance their budget being a clear product of poor performance and governance, other well managed and high performing councils will soon reach the point of being unable to deliver a balanced budget.
12. A combination of the financial pressures and the on-going uncertainty on funding levels, including the continuation of essential funding streams such as the £1.8bn iBCF and reversion to a 1.99% referendum threshold, are contributing to this rapid decline in confidence.

b) how this has affected their ability to deliver services.

13. In considering the impact of rising spending need, councils have had to work within legal requirements to present a balanced budget. This has meant extensive organisational and service transformation. Ultimately, however, the scale of the challenge has meant a reprioritising of services and with an increased focus on delivering efficiency savings and an emerging 'core offer' of statutory services.
14. LGA analysis has shown that local government as a whole has delivered over £16bn of savings since 2010. Our member councils have set out challenging plans for efficiencies and

² CCN Response to Provisional Local Government Settlement 2019/20

<https://www.countycouncilsnetwork.org.uk/download/1940/>

³ Local Government Finance Settlement 2018 Technical Consultation: CCN Response

<https://www.countycouncilsnetwork.org.uk/download/1756/>

⁴ <https://www.countycouncilsnetwork.org.uk/councils-warn-that-yearly-overspends-on-special-education-are-unsustainable/>

⁵ <https://www.countycouncilsnetwork.org.uk/download/1872/>

savings for 19/20 and as part of medium-term financial strategies. This includes further £1.39bn of savings between 2018 and 2020, with a conservative estimate of £466m of earmarked savings likely to make further visible reductions to frontline services, such as adult social care, children’s services, libraries, children’s centres, and road repairs, or lead to raising or introducing new charges for residents.⁶

15. Counties are witnessing a dramatic increase in expenditure on crisis and acute care at the expense of preventative services. Reducing spend on preventive services is a false economy, storing up problems for the future, but councils have little choice with demand rising.
16. For instance, in children’s social care, counties have focused on children at risk of immediate harm or danger, increasing spend on children in care by £383m – which is two thirds of the total increase in England. At the same time, they have increased spend on safeguarding children by £134m since 2015, 46% of the total increase from all councils. County authorities have reduced their expenditure on Sure Start and early years centres by £73m since 2015 and have cut spend on local youth services by £82m – reductions in spend that are double anywhere else in England.⁷

Difference in expenditure on children’s services 2015/16 to 2019/20

Council type	Sure Start/early years centres	Services for young people	Looked After Children	Safeguarding children
County authorities	-73.1m	-£82.5m	£383.3m	£153.4m
London councils	£1.1m	-£29.4m	£78m	£60.7m
Metropolitan boroughs	-£39.4m	-£15.2m	£201m	£51.8m
Unitary councils	-£36m	-£36.5m	£190m	£42.5m

17. County councils face structural challenges compared to unitary authorities that places limitations in meeting savings targets. This impacts in two specific ways.
18. Firstly, other types of councils have significantly more scope for increasing fees and charges as a means of generating income. Many of the income-generating and fee-charging services which would be available to unitary authorities are administered by district councils. Our analysis shows that fees and charges income as a percentage of total spending need in 2018/19 was just 5% for county councils. This compares to 60% for a district council and 15% for a unitary authority.⁸ Our analysis of parking income also shows that London Boroughs were estimated to generate £413m in 2019/20, up 36% since 2016. London Boroughs now account for 46% of total national income from car parking charges, with county councils at just 1%.⁹
19. Secondly, county councils deliver a smaller range of largely statutory services. At a time when demand has risen sharply in these services, county councils have less scope to offset these rises by delivering savings in other services that are discretionary or have high-levels of back-office and administrative spend.

⁶ Local Government Finance Settlement 2018 Technical Consultation: CCN Response <https://www.countycouncilsnetwork.org.uk/download/1756/>

⁷ The figures above are taken from councils’ Revenue Account Budget figures, collated by the Ministry of Housing, Communities, and Local Government. They compare 2015/16 and 2019/20 figures. View the data [here](#).

⁸ Figures taken from forthcoming PwC Report. 2018/19 Revenue Outturn fees and charges as a proportion of PwC estimates on spending need.

⁹ The figures above are taken from councils’ Revenue Account Budget figures, collated by the Ministry of Housing, Communities, and Local Government. They compare 2015/16 and 2019/20 figures. View the data [here](#).

20. Only 6.8% of county council expenditure is spent on management and support costs compared to 11.2% in a unitary authority and 62.5% in district councils. This ultimately limits their ability to undertake initiatives such as shared services to reduce costs, where smaller, less complex services with higher administration costs, are likely to be shared across multiple authorities. LGA analysis shows only 4.4% all shared services are related to upper-tier services.¹⁰
21. CCN has recognised that one potential response to these structural challenges is for two-tier areas to consider reorganisation. We have published an extensive evidence-base on the potential financial and non-financial benefits, including a national study by EY that concluded that a single unitary authority model generated the most savings and service benefits.¹¹
22. We support members councils wishing to pursue reform as a means of generating long-term savings and improved service outcomes. However, in the short term, reform would not generate the level of immediate savings required to meet our member councils finding gap, while there is political uncertainty as to whether Government desires further reform without complete consensus amongst authorities effected.

The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

23. The relative impact of reductions to local government funding, and how to access councils spending requirements, has subject to extensive analysis. This includes recent reports by the National Audit Office on local government sustainability¹² and studies by the Centre for Cities,¹³ New Policy Institute¹⁴ and Cambridge University.¹⁵
24. Using official data published by the Ministry of Housing, Communities & Local Government (MHCLG), these studies focus on the extent to which local government's Core Spending Power (CSP) and service expenditure have reduced since 2010. **However, it is our view that this type of analysis has some key limitations that underestimate the financial challenges facing county authorities and their future spending needs.**
25. A comparison of trends in spending and/or reductions in CSP across different local authorities fails to consider the relative starting position of councils in levels of government funding and the impact this has on the level of service provided by different types of councils. It also fails to capture key drivers of future demand and cost pressures – such as demographics, inflation, and the living wage - which are not readily measurable based simply on analysis of historic expenditure.
26. It is for this reason that CCN commissioned PwC to provide further evidence on past and future spending need.
27. PwC's analysis estimates spending need based on a more 'consistent level of service'. It is intended to address some of the key limitations of an analysis of the financial pressures

¹⁰ Adult social care, children's, libraries, public health and transport & highways. LGA Shared Services Map <https://www.local.gov.uk/our-support/efficiency-and-income-generation/shared-services/shared-services-map>

¹¹EY: *Independent Analysis of Governance Scenarios and Public Service Reform (2017)* <https://www.countycouncilsnetwork.org.uk/download/165/>

¹² National Audit Office (March 2018), *Financial sustainability of local authorities 2018*

¹³ Centre for Cities. *Cities Outlook 2019 a decade of austerity* (Jan 2019) <https://www.centreforcities.org/publication/cities-outlook-2019/>

¹⁴ New Policy Institute. (2018) *A Quiet Crisis: Changes in local government spending on disadvantage* <https://www.npi.org.uk/publications/local-government/quiet-crisis/>

¹⁵ Cambridge Journal of Regions, Economy and Society (2018) <https://www.cam.ac.uk/research/news/austerity-cuts-twice-as-deep-in-england-as-rest-of-britain>

facing local government now, and in the future, based solely on historical expenditure patterns. It recognises that different local authorities face:

- Higher or lower demand for their services, depending on underlying socio-economic characteristics such as demography, levels of deprivation and geography; and
- Different input costs (for labour and property), which are reflected in the Area Cost Adjustment (ACA) factors.

28. Furthermore, it uses a broad range of generic¹⁶ and service specific¹⁷ cost drivers at a tier level. In this way, it mitigates the problem that actual expenditure may not correlate with actual spending need. Higher expenditure may be the product of historic funding levels. Lower expenditure could be due to lower levels of funding and may fail to recognise 'unmet needs'.

29. The emerging analysis of spending need by PwC shows the following:

- CCN member councils will account for 39% of all spending need on local government services in England by 2024/25. Spending need rises from £17.9bn to £23.8bn by 2024/25. For all local government, councils spending need will rise by 35% (£15.7bn) over the period;
- County and county unitary authorities have underlying 'unmet needs', with our spending need *exceeding* our actual funding in 2015/16 by £1bn;
- Spending need on adult social care will rise by £6.1bn nationally; this is before accounting for any additional costs arising from future reforms. By 2024/25, CCN member councils will account for 47% of all spending need on adult social care. By the middle of the next decade CCN member councils will need to spend an additional £2.9bn annually on adult social care compared to 2015/16 due to rising demand and costs;
- Demand for children's social care will rise faster than any other local government service. Spending need on children's social care will rise nationally by 48% during the period, compared to 43% for adult social care. By 2024/25, CCN member councils will account for 37% (£4.5bn) of all spending need on this service, with spending need increasing £1.4bn since 2015/16;
- By 2024/25, for county councils 78% of their spending need will relate to adult social care, children's services, public health, and education services (home to school transport & SEN). For county unitary authorities it is 67%. Nationally, this figure is 68.5%.

How funding needs of local government are assessed.

30. CCN has long highlighted the funding inequalities across different types of local authorities and thus the impact of how needs are assessed. The emerging results of our study by PwC show that the funding model for local government does not reflect spending need of different councils.

¹⁶ Unavoidable costs including inflation, living wage, pension obligations.

¹⁷ PwC included 17 cost drivers across 10 service areas.

31. Despite our analysis with PwC showing that CCN member councils will account for 39% of all local government spending need, they currently receive only 27.2% of all government funding.¹⁸
32. Our key concerns about the way that the needs of different types of councils are assessed under the current funding formula are as follows:
- it fails to recognise 'unmet needs' in shire counties and rural areas. This is where services have not been provided due to the historical availability of funding in different areas. The current regression methods of measuring need do not account for these factors, nor reflect differences in the efficiency with which different councils deliver services. Our PwC analysis suggest this could amount to £1bn;
 - current indicators for deprivation tend to have an urban bias and do not properly recognise the pockets of deprivation that can exist in rural areas;
 - the weighting for "density" is eight times larger than it is for "sparsity". Where the additional costs of delivering services in rural areas are explicitly recognised – through the Rural Services Delivery Grant - this is on the basis of areas that are classed as having 'super sparsity', which fails to properly capture rurality in larger areas of the country;
 - in response to lower levels of government grant council tax is higher in counties. Government figures show that county areas contain the highest council tax bills in the country, with the average Band D household will be paying £1,826 per year from next month, £76 higher than the national average (£1,750), £349 higher than the average in London (£1,477).¹⁹ Changes introduced in the local government settlement from 2016/17 unfairly used actual rather than notional council tax to measure spending power. This effectively doubly penalises county authorities for having to increase their Band D council taxes.
33. The government has made good progress with the Funding Review to date, and CCN strongly supported the overall direction of travel outlined in the recent MHCLG consultation. Earlier this year, CCN submitted a comprehensive response to the consultation which you can find on our website.²⁰ However, we wish to highlight the following key points:
- The Government proposals for the foundation formula rightly move towards a needs assessment that is simpler and more transparent. It rightly gives more weighting for the standard per-capita funding that is of most importance for most local government services. CCN supports this approach because it will create a more credible, workable funding system; be more understandable for users; and crucially, better reflect the real spending needs of different types of local authorities to provide a more consistent level of service across the country. Importantly, we believe the proposals are more capable of recognising "unmet need" in rural areas;
 - The Government may wish to consider including deprivation at a small weighting within the foundation formula. However, its profile should only be as large as the evidence supports;

¹⁸ This includes all grants, including baseline funding, RSG, New Homes Bonus, public health grant, Better Care Fund Allocations and adult social care grants,

¹⁹ MHCLG (March 2019) Council tax levels set by local authorities: England 2019-20

²⁰ CCN (2019) Fair Funding Review consultation: review of local authorities' needs and resources – CCN response

- CCN supports the proposed number of service specific formula, including for adults and children's services. The proposals strike a reasonable balance between providing specific funding allocations where this is justified, and creating a simpler, fairer formula.
- we strongly support the use of notional council tax and a partial council tax equalisation and the use of travel times in the Area Cost Adjustment, alongside a remoteness indicator.

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 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.

34. In responding to the funding pressures outlined above, the primary objective of the Spending Review must be to secure an increase in the 'quantum' of funding available to the local government sector. However, this must be coupled with the completion of the fair funding review to ensure that all resources are distributed in a fairer, more equitable way.
35. A key priority for the Spending Review is the publication of the Adult Social Care Green Paper to provide a long-term sustainable funding solution. We do not seek here to set out our proposals for reform but have published a set of proposals in our own Adult Social Care Green Principles Paper.²¹
36. CCN has long argued that many aspects of the local government finance system need to be updated. Alongside additional funding the Spending Review provides the opportunity to consider a broad range of changes to areas such as council tax, business rates retention, fees and charges, New Homes Bonus (NHB) and fiscal devolution.
37. In considering reforms to these aspects of the system, we would question the current balance between incentive and needs-based funding that has emerged since 2010. Incentive-based funding now exceeds £3.0bn per year,²² which is 16.1% of total Government funding.
38. When upper tier services such as adults' and children's, which represent the biggest cost pressure on upper tier councils, do not stand to benefit from such incentive-based funding, priority should be given addressing spending need, even if this must be at the expense of the existing funding for incentives.

Council tax

39. Since the last Spending Review in 2015, Government have provided greater flexibilities for local government to raise local revenue through the social care precept and extension of the council tax referendum threshold to 3%. However, from 2020 legislation means the council tax threshold will revert to 1.99%.

²¹ Sustainable Social Care - A Green Paper That Delivers a New Deal for Counties
<https://www.countycouncilsnetwork.org.uk/download/1663/>

²² Pixel Financial Management calculation for CCN. Includes BRRS, New Homes Bonus, Business Rate Pilots as well as business rates deductions for Enterprise Zones and Renewable Energy.

40. CCN strongly believes that council tax setting is a matter for individual local authorities, who are democratically elected and offer local accountability. As a result, we disagree with the continued application of the principle that local authorities cannot increase council tax by more than 1.99% without approval through a referendum.
41. We would also request that local government also be given further freedoms, including powers over mandatory reliefs, such as the single person discount. Consideration should also be given to flexibilities to introduce new council tax bands.

Business Rate Retention (BRR)

42. County authorities have had a mixed experience of business rate growth since 2013-14. Some authorities have generated significant amounts of growth, particularly those areas that are close to major transport routes or large conurbations. Growth has been less strong in other county areas, particularly those that are in more rural or more remote parts of the country. Overall, due to this varied growth – and current tier splits – CCN member councils benefit the least from business rate growth above baseline, with our members expected to retain just 10.6% of all business rate growth across the country.²³
43. Our recent response to the consultation on 75% BRR set out our full response to the latest proposals,²⁴ which we broadly welcome; including the proposals for a simplified administration of the system. We raised concerns over the proposals on the reforms to the levy but stated our strong support for full baseline reset in 2020, followed by a phased-reset in the following period.
44. Many authorities are currently benefitting excessively from the business rate system because of large new developments (over which they had very little influence or control) or because their baselines were set in an advantageous way in 2013-14. A full baseline reset would rightly reset the system to create a fair redistribution of these gains.
45. An equally important aspect of the system is tier splits. The way that the current system of BRR has been set up means that shire counties have only been able to retain a 9% share of business rate growth. As a result, counties have not benefitted from the move towards 50% retention of business rates as much as other classes of authority, in particular district councils.
46. Following an invitation from the Ministry of Housing, Communities and Local Government, we have entered discussions with the District Councils Network on what an appropriate tier split in two tier areas would be that properly recognises the role of all councils in driving economic growth and achieves a better balance of risk and reward between the tiers.
47. A longer-term concern for local government is the interaction between the BRR scheme and the wider funding system, including the long-term sustainability of business rates and continuing calls by the business sector for reform. We have highlighted the overall sustainability of the business rates system, especially its effect on high streets. Suitable taxation of large online retailers should be considered in addressing the loss of business rates from on-line shopping.

²³ Pixel Financial Management modelling for CCN. This refers to expected growth above baseline funding for 2019/20, including nine unitary authorities.

²⁴ Business Rate Retention consultation (February 2019) - CCN response
<https://www.countycouncilsnetwork.org.uk/download/2107/>

Fees and charges

48. We believe there is scope for county and county unitary authorities to have further powers to charge for access to certain services and recover costs of administering some. For instance, upper tier councils could be given the ability to make a modest charge for access to services such as House Waste Recycling Centres, or to place a small an administration fee on freedom pass applications similar to the fee for processing blue badge applications.

New Homes Bonus

49. Alongside business rates retention, the NHB and Community Infrastructure Levy (CIL) do not adequately reward the contribution of county council services to delivering housing growth, failing to provide the necessary funding for the provision of vital infrastructure. Due current tier spits CCN member councils benefit the least from NHB, with our members expected to retain just 17% of all funds across the country.²⁵
50. Local funding shares, such as the 80/20 split in NHB payments, are disproportionately weighted towards district councils, whilst unitary authorities receive 100% of local payments. The Government's own evaluation of the impact of NHB has shown that it has failed to achieve its objectives and resulted in county councils witnessing a negative financial impact from the policy.²⁶
51. We would welcome much greater recognition of the contribution that upper tier authorities play in generating housebuilding through providing the strategic infrastructure that makes this possible. This would require a higher share of NHB, or for the policy to be abolished, with the funding return to local government via a needs-based grant.

Fiscal Devolution

52. CCN is aware that there is a growing debate on a more ambitious programme of fiscal reform, whether it is replacing council tax with a new property tax or additional income streams such as a tourist or local income tax. CCN and its members have no settled view on the merits of such options, but alongside reforms to the taxation of online retailers, a full range of fiscal devolution measures should be considered as part of the long-term funding of local government in the Spending Review.
53. Any replacement system of taxation designed to fund local government must provide provide local government with the resources to provide the services that residents need by balancing the correct level of redistribution, needs-based funding and incentives for local growth.

²⁵ Pixel Financial Management modelling for CCN. This refers to expected NHB payments for 2019/20, including our nine unitary members.

²⁶https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/387152/NHB_Evaluation_FINAL_report.pdf