

**Housing, Communities and Local Government Committee
Inquiry into Local Government Finance and the 2019 Spending Review
Oldham Council written submission**

1. Background and Introduction

1.1. The purpose of this paper is to assist the Committee's inquiry regarding the effectiveness of existing funding arrangements for Local Government in terms of ensuring resources meet need and demand for local services both now and in the future. Specifically, the paper will cover:

- 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;
- 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;
- 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;
- 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.

2. Lessons to learn from past changes to Local Government Funding

2.1. The six guiding principles underpinning the Fair Funding review showed initial promise in demonstrating that lessons had been learned from past changes to the Local Government finance system. Those principles are Simplicity, Transparency, Contemporary, Sustainability, Robustness and Stability.

2.2. Unfortunately, experience suggests the review itself is falling short against these principles in a number of key areas:

Simplicity – The exclusion and simplification of measures and indices from the proposed formula risks leaving 'high needs' authorities with insufficient resources to meet their statutory commitments. Proposals to exclude measures of deprivation from the foundation formula and the potential over-simplification of formulas for assessing Adults and Children's Social Care spending needs particularly cause concern. The Council is also concerned about the lack of proposals to fund services where there are existing levels of unmet need including in the area of Home to School Transport and in supporting those with no recourse to public funds.

Transparency – Much of the review and most recently the consultation paper published alongside the 2019/20 Local Government Finance Settlement was supported by little in the way of published evidence and analysis. Most

notably, Local Authorities were not provided with exemplifications setting out how proposals included within the review would affect the resource allocations of individual local authorities. Furthermore, it is evident that the proposed formula will still allow Ministers to significantly influence resource allocations through adjustments to damping arrangements and the weightings given to particular elements of the formula.

Contemporary – Although it is laudable to aim to use timely and up to date cost driver information, it is clear that elements of the formula still rely on older data (e.g. from the 2011 census) which will not take account of major policy and service developments such as the roll out of Universal Credit.

Sustainability – Once again, the proposed formula is a relative distribution model concerned with determining each authority's proportion of funding rather than the amount required. Whilst there continues to be a disconnect between quantum of resources provided and the duties placed on Local Authorities, one can never truly say the funding model is sustainable.

Robustness – The absence of a figure for quantum of funding and associated local authority exemplifications means it is not yet possible to assess the robustness of any Fair Funding review proposals.

Stability – If some of the proposals set out in the review are taken forward (e.g. removal of deprivation measures from the Foundation Formula), it is likely some high needs authorities will be left with insufficient resources to meet their statutory commitments. This, together with no clarity on the likely quantum of funding for local government undermines the stability of the Local Government finance system.

- 2.3. For a truly sustainable system of Local Government Finance, there needs to be a clear evidence-based link that demonstrates the funding provided to individual authorities is sufficient to meet statutory commitments and as well as provide for an element of local decision making and local setting of priorities. Throughout the last decade, there has been a lack of proper impact assessments to show the effect austerity has had within specific local areas. There has also been a failure to address the cumulative impact of policy and funding changes across Government departments. The sector needs full transparency not just around calculations and exemplifications but where Ministers have brought their influence to bear through adjustments to weightings and other formula elements.
- 2.4. Oldham also believes pushing ahead with the devolution agenda provides an opportunity to reverse decades of centralisation which controls not only spending decisions but also the ability to raise revenue locally. Local areas need much greater control over resources to ensure that services are commissioned and delivered in an efficient and effective way to meet local priorities. No-one is better placed to understand assets, opportunities and challenges than local leaders working in a place-based partnership.

- 2.5. As part of this devolution agenda, Oldham strongly supports the continuation of the Greater Manchester 100% Business Rates Retention Pilot Scheme beyond the current Spending Review Period. The pilot scheme has successfully demonstrated how full rates retention could operate in practice and has fostered closer co-operation between the Combined Authority and the ten participating Greater Manchester Districts. The Government intends to move to 75% rates retention from 2020/21 and would have moved to full rates retention had there been sufficient time in the parliamentary calendar to enact the necessary primary legislation. Given the direction of travel with regard to rates retention, Oldham strongly believes there is merit in retaining the pilot scheme to fully test and review the arrangements through a reset process and through other proposed reforms such as simplifying the administration of the system.
- 2.6. Furthermore, given Council Tax in England is based on property values last determined 28 years ago, the time for a fundamental review of the system of local government taxation is long-overdue if only to address some of the indefensible disparity in levels of local taxation that now exist. For example, how is it justifiable that Band D Council Tax in the prosperous London Borough of Westminster is £753.85 when compared to a 'high needs' borough like Oldham where, due to long-standing disparities in the assessment of spending need, it is £1,899.61. The regressive nature of the tax is also illustrated by the fact that full time weekly average earnings are just £481 per week in Oldham compared to £786 per week in Westminster.
- 2.7. Whilst the Government has expressed the view that Local Authorities should be self-sufficient from a funding perspective, a reformed finance system will always need an element of equalisation as the ability to raise local income varies significantly across the country. Continuing with the theme of self-sufficiency in the next Spending Review period carries the following risks:
- Further divergence between funding and spending need;
 - New burdens and policy changes being introduced without enough funding to support them at a local level;
 - That increases in locally generated funding fail to keep pace with demographic change;
 - Increased tax competition between local authorities and volatility in revenue forecasts.

3. Efficiency, fitness for purpose and sustainability of the current system for funding local government and how it could be improved

- 3.1. Funding to local authorities has reduced dramatically since 2010, when the austerity programme began. The most grant dependent councils (which arguably have greatest need) have lost the greatest proportion of funding. The LGA has identified a funding gap of £3.2 billion by 2020 and states that councils will have lost 60p in every pound by the end of the decade
- 3.2. The first priority for the 2019 Spending Review in the context of Local Government is to address the massive shortfall in quantum of funding. The

quantum of local government funding must be sufficient to deliver basic services of equivalent quality across the country. The Department and the Treasury should listen to the warnings of the Public Accounts Committee, the LGA and others that they must make a rational, evidence-based assessment of the total value of funding necessary for Councils to deliver basic services. To date, they have not shared evidence of having done so.

- 3.3. Spending pressures in high needs authorities have also been exacerbated by a change to funding profiles. In 2010, more than 60% of Local Government funding was allocated on a needs basis. By 2017/18, year on year cuts to Core Spending Power reduced this to just 40% of the total with Council Tax and Incentives making up the remaining 60%.
- 3.4. Whilst Oldham is supportive of the principle of deploying fiscal incentives to promote increases in housing provision (e.g. through New Homes Bonus) and promote economic growth through Business Rates Retention, priority must be given to ensuring Councils have sufficient resources to fund essential local services.
- 3.5. Oldham believes the following developments within the current system have detracted from fitness for purpose and sustainability:
 - The 'rolling in' to Settlement Funding Assessment of previously separate funding streams for items such as Council Tax Support/Reduction Schemes which have subsequently been cut without any reference or connection to level of need;
 - The opaque nature of the workings of the current formula which prevent Councils from easily assessing how much of their funding allocation is driven by the services they provide and their demographic profile;
 - Formula 'damping' has been 'baked in' to funding allocations since 2013 when the formula element of needs funding was last reviewed. Based on analysis prepared by SIGOMA, this has exacerbated funding disparities across areas whereby 209 councils received a total £565 million less than their formula share in order for 143 authorities to receive £565 million more;
 - The provision of additional funding to some areas (at the expense of others) which was not evidence based but the apparent result of lobbying activity. This includes the provision of Rural Services Grant, Transition Grant and the elimination of negative RSG;
 - The introduction of new funding mechanisms which fail to fully take account of need or the ability to raise local revenue; Adult Social Care Precept being the primary example;
 - The offer and subsequent rolling in (and cutting) of Council Tax Freeze Grant which have contributed to the need for above-inflation increases in Council Tax levels since the 2016 Spending Review;
 - The provision of a large number of one-off or temporary funding streams/mechanisms; particularly in the arena of Social Care (e.g. Improved Better Care Fund). These funding streams have no certainty beyond the current Spending Review period and present a considerable challenge when it comes to robust financial planning beyond 2020;

- Problems with funding for schools; particularly pressures associated with High Needs leaving many authorities managing deficits without adequate support from the Department for Education;
- The Government's plan to publish the Spending Review alongside the Autumn Budget leaving Councils with little time to plan for the year ahead. In this situation, Councils risk making too many spending reductions if their forecasts are too pessimistic. Alternatively, they may under-estimate the challenge leaving insufficient time to reduce spending in a controlled and sustainable manner.

3.6. An example of the inadequacy of temporary/one-off funding is illustrated by the £410m announced in the 2018 Autumn Budget to support 'Social Care' in 2019/20. Oldham's share of this funding represents a one-off allocation of £1.917m. However, in the context of local Children's Social Care services this is woefully inadequate. In 2018/19, the Council approved £8.063m of additional ongoing funding support for Children's Social Care to address severe spending pressures within the service. In 2019/20, an additional £4.611m of funding for this service is required adding up to a combined ongoing pressure of almost £12.7m.

3.7. The previous section of this paper has highlighted Oldham's concerns regarding the Fair Funding review. As well as addressing these issues, Oldham believes the process for resetting the Business Rates Retention system should:

- Explore MHCLG's proposals for simplifying the administration of the system to reduce revenue volatility and also hopefully release millions of pounds back into the system currently held as provision for Business rates appeals;
- Equalise the growth incentive across all areas so that a given percentage of business rates growth delivers an equivalent increase in spending power;
- Continue with 100% rates retention in existing selected pilot scheme areas.

4. Assessment of Funding Needs of Local Government

4.1. The Fair Funding review heralded a much-needed overhaul of the Local Government Finance system. Unfortunately, some of the proposals set out in the recent consultation paper risk undermining the sustainability of the system going forward and leaving some authorities with insufficient funds to meet their Statutory Duties.

4.2. There are assumptions built into the most recent Fair Funding review announcements that are not supported by, and even run counter to, the available evidence. This risks the credibility of the review with the sector and would perpetuate the now well-established practice of shifting the greatest burdens onto the poorest areas for a long time to come. Proposals which provide most cause for concern include:

- The omission of deprivation from the foundation formula;
- The continued inclusion of Area Cost Adjustment factors in all service specific formulae which is not evidence-based;
- The inclusion of a rural sparsity adjustment in all service specific formulae which is also not evidence-based.

4.3. Oldham wishes to draw the Committee's attention to the following statement from the Institute for Fiscal Studies:

"The rationale for basing the Foundation Formula (for services such as waste collection, libraries, parks, housing, planning and central administration) on population only is weak: the statistical results cited by the MHCLG are not strong enough to support such a decision. In particular, the fact that population explains the vast majority of variation in spending and factors like deprivation explain very little is unsurprising: population varies so much between councils that it is inevitable that it will drive nearly all differences in overall spending levels. This would be true even if factors like deprivation are highly significant drivers of variation in spending need per person"

Source: IFS Response to the Ministry of Housing, Communities and Local Government's Consultation (21 Feb 2019)

4.4. Oldham reiterates the need for a clear evidence-based link that demonstrates the funding provided to individual authorities is sufficient to meet statutory commitments and as well as provide for an element of local decision making and local setting of priorities. For a truly dynamic system of Local Government funding, focusing on a 'relative' distribution formula is not sufficient. Where Government policy (directly or indirectly) places additional burdens on the Local Government sector, there should be a clear process for assessing the financial implications of those burdens alongside proposals for how they are to be financed without simply assuming resources can be shifted from other service areas without consequence.

4.5. One such area where major policy change has had a significant but largely unrecognised impact on local authorities is welfare reform. Benefit caps, freezes and restriction of entitlement have resulted in greater pressure on Councils to:

- Support people into and remain in employment;
- Meet housing need and deal with rising levels of rent arrears and homelessness;
- Signpost residents to local support services and targeting communications to groups most at risk (e.g. through welfare rights advice services);
- Increase debt collection activity; particularly for working age residents in receipt of Council Tax Support. Funding for Council Tax support was localised in 2013/14 with a 10% cut and has further reduced year on year in line with cuts in Settlement Funding Assessment. Funding for Local Welfare Provision was similarly 'rolled in' and cut in line with Settlement Funding Assessment.

- 4.6. Other policy areas where additional responsibilities have been passed to Local Government without sufficient funding include:
- Additional responsibilities to support Care Leavers including a new duty to provide a personal adviser up to age 25;
 - The Homelessness Reduction Act 2017 places additional responsibilities on Local Authorities to prevent homelessness in their areas but came with just £73m of funding nationally;
 - National Living Wage increases which have not been funded.
- 4.7. In terms of assessing funding need, Oldham would also welcome more research and funding for early intervention and prevention services which in the longer term should help address long-standing inequalities and issues associated with deprivation. The level of cuts experienced since 2010 and uncertainty for the planning period ahead means inevitably that crisis work is prioritised over preventative work.
- 4.8. A robust and objective assessment of spending needs must be accompanied by an assessment of each local authorities' ability to raise revenue through local taxation.

Council Tax

- 4.9. Council Tax is agreed by all to be a regressive tax with some of the poorest communities facing the highest Council Tax Charges. As stated at paragraph 2.6, Band D Council Tax in the prosperous London Borough of Westminster is £753.85 whereas in the far less prosperous borough of Oldham it is £1,899.61. The regressive nature of the tax is also illustrated by the fact that full time weekly average earnings are just £481 per week in Oldham compared to £786 per week in Westminster
- 4.10. This is due to a combination of factors, the most important of which are:
- A failure to carry out a national revaluation of domestic properties. Bandings are currently based on property values at 1 April 1991;
 - An inequality in grant funding and other income that has allowed some wealthy areas to charge very low levels of tax;
 - A national relief system that is inflexible to local circumstances.
- 4.11. It is also a matter of concern that, in their fair funding proposals, MHCLG do not intend to recognise the different levels of Council Tax support in assessing relative resource. It must be clear that authorities with a greater benefit dependent population will face a greater pressure in assessing and collecting Council Tax from those individuals
- 4.12. In the absence of a fundamental review of the system of local taxation, Oldham believes that, at the very least, the system of Council Tax, Council Tax reliefs and Council Tax support needs reforming to ensure that all authorities are levying Council Tax in proportion to current property values and are not suffering locally for national relief schemes. The ability of some

authorities to raise greater Council Tax must also be fully recognised by adjusting funding allocations.

Business Rates

4.13. Business Rates have been criticised for their complexity, unfairness and the fiscal burden they place on businesses. High Street retailers, in particular, are under pressure and feel they are bearing an unfair burden of tax by comparison to online retail.

4.14. In addition to challenges associated with the system of taxation, the Business Rates Retention system introduced in 2013 has introduced a significant element of risk and uncertainty into the Local Government Finance system. As well as long standing issues associated with Business Rates appeals, other funding pressures have resulted from:

- The claim for Business Rate Relief from Health Care Trusts which simply diverts resource from one part of the public sector to another whilst simultaneously enriching advisers and lawyers advising on the claim;
- No recognition of the fiscal impact on Councils associated with Academy conversion by Schools (whereby Academies are entitled to claim 80% charitable relief);
- A multitude of HM Treasury policy announcements relating to Business Rates reliefs and discounts and the switch from RPI to CPI which has resulted in resources being deployed to manage the mechanics of the rates retention system instead of focusing on improving Business Rates growth;
- Rates avoidance activity (e.g. through manipulation of charitable relief rules) which is difficult and costly to identify and mitigate.

4.15. As explained at paragraph 3.7, the Council believes there is merit in:

- Exploring MHCLG's proposals for simplifying the administration of the Business Rates Retention system to reduce revenue volatility and also hopefully release millions of pounds back into the system currently held as provision for Business rates appeals;
- Equalising the growth incentive across all areas so that a given percentage of business rates growth delivers an equivalent increase in spending power;
- Continuing with 100% rates retention in existing selected pilot scheme areas.

5. The approach the Government should take to local government funding as part of the 2019 Spending Review

5.1. First and foremost, the 2019 Spending Review in the context of Local Government must address the significant shortfall in quantum of funding resulting from almost a decade of austerity. The Government should commit to provide funding which is sufficient to deliver basic services of equivalent quality across the country. In conducting the review, the Council would

encourage HM Treasury to look beyond individual departments and better understand the interdependencies which impact on service delivery, for example the NHS long term plan and Social Care/Public Health Services.

- 5.2. The Government must also set out a mechanism for adjusting the quantum of funding available to Local Government which recognises and deals adequately with the impact national policy measures have in local areas. In the recent past there has been little to no recognition of the impact that welfare, social care and education reform has had on the ability of local authorities to continue financing and providing local services. Future Local Government Finance Settlements should match the Spending Review period and provide certainty of funding for resource planning purposes. In addition, the Government should recognise that the aim of increasing self-sufficiency of funding within all Local Authority areas is unrealistic and carries significant risks to the overall stability and sustainability of the system.
- 5.3. The Council remains concerned about the direction of travel and early conclusions being drawn under the Fair Funding review. In particular, some proposals being given serious consideration do not appear to be evidence-based. Due to the lack of exemplifications and evidence-based proposals, perhaps consideration should be given to allowing more time for proper consideration of options for the new regime with a view to its introduction from 2021/22.
- 5.4. Clarity is needed in relation to some major policy areas which impact on Local Authorities. In particular, further delays to the publication of the Social Care green paper is extremely disappointing. The absence of clarity around Social Care and Public Health funding is a major risk to the ambitions of the NHS plan as are existing barriers to integration.
- 5.5. With regard to local taxation, the Council would welcome measures that at least reduce the regressive effects of Council Tax, deal with significant disparities in local levels of Band D equivalent Council Tax and allow for more local discretion in the application of reliefs and discounts. The Government should urgently address the fact that those on low earnings pay over a far greater proportion of their income in Council Tax than high earners. With regard to Business Rates, simplification of the administration of the system, equalisation of the growth incentive and the continued piloting of 100% rates retention within the Greater Manchester area would all be welcomed.
- 5.6. Finally, pushing ahead with the devolution agenda offers significant promise for the integration of policies and decision making at a local level. Progress so far has already led to new models of local service delivery as well as better co-ordination of interventions to drive productivity growth. It is unfortunate that the consultation on the forthcoming Shared Prosperity Fund has been delayed carrying the risk that it will not be in place to fund vital programmes of work across Greater Manchester.