Breaking the link between funding and social needs – local government finance

The funding of local government has been notoriously complicated, subject as it has been to constant changes by governments in the methods of funding. However, since 1929 “it has been used to some degree to promote equalisation – that is, to ensure that the funding available to local authorities bears some relationship to the need for services in the local area.” (*House of Commons Library Research paper: English government finance – issues and options* September 1st 2014) Reforms in 1948 and 1959 “broadened the influence of equalisation, applying it to most central government funding”.

Prior to 1990 local authorities were able to keep all the income they raised from rates, both domestic and business, and the government then gave a top-up in the form of **rate support grant**, based on an assessment of local needs. From 1990 the new system instituted greater Westminster control over local authorities as a result of 'grant' being determined centrally. The government controlled what was raised locally and determined how much of it each local authority could keep. Even so, funding levels at least bore some relationship to an up to date estimate of local needs in each area. In contrast the new system that the coalition government has introduced marks **a fundamental change** because *the link between funding and an annual uprating of needs has been ended*.

There are 4 sources of funding for Councils: government grants, business rates, council tax, fees and charges for services they provide. A **Dedicated Schools Grant** is provided separately. Each Council receives a **Settlement Funding Assessment** (SFA) which roughly corresponds to the previous 'formula grant'. This added up to £23.8 billion in 2014/15. The SFA is comprised of the Revenue Support Grant and the Business Rates raised locally which a local authority is allowed to keep by the government, under the Business Rate Retention Scheme (BRRS - see below).[1]

However, the allocations for 2014-15 and 2015-16 were set with reductions in the 2013-14 allocations. Unlike previously, *need will not be reassessed annually*. For seven straight years this will remain the case until the BRRS is reassessed in 2020 (unless the new government changes this in the next Parliament).

At the same time the government has encouraged Councils to freeze their Council tax, by use of the carrot and the stick. The carrot is a grant for Councils that implement a freeze, the stick is the legal obligation to hold a referendum if CT is raised above a certain level, currently 2% or above. In the context of a deep and unprecedented reduction in central government funding, a freeze means that the shrinking amount of money Councils receive is devalued by annual inflation.

The government has also introduced elements of quasi-market competition between Councils. For instance, the New Homes Bonus is supposed to 'incentivise' local authorities to encourage the building of new homes in their area. Councils receive six years of the

1 Councils keep all their Council Tax but since 1990 central government has determined how much of their business rates they keep.

equivalent of the CT for each new home built, or empty homes put back into use. What this means in practice is that *Councils with higher house values receive more money than those with lower values*, as measured by CT Bands. Moreover, the money available for this has been taken from the SFA pot. So in 2014-15 £700 million was taken out of the SFA to fund the New Homes Bonus. In effect *poorer areas are funding richer ones*. An example of the disparities that this creates is given by Cathy Davis in *Finances for Housing*. She cites the example of two authorities in Yorkshire. Richmondshire, 261st in the indices of deprivation, received £6,272.16 per home as compared with Scarborough, 83rd, which received £1,600.

Where the money comes from

In 2013-14 local authorities in England budgeted to receive £89.4 billion in income raised locally and from government grant.

- £31 billion in funding for schools, ring-fenced and transferred directly to the schools.
- £22. billion in revenue grants, which are passed directly to individuals, such as Housing Benefit or training support payments.
- £36.1 billion in revenue and capital grants to support the delivery of their statutory functions and duties. Eight different departments give funding, but 73% of it comes from the DCLG.

£3.2 billion of this last figure was in ring-fenced grants, i.e. it is specified what they have to spend it on. £2.7 billion of this was Public Health Grant.

Funding Type	Amount 2013-14	Grant conditions	Example
Ring-fenced grants	£3.12 billion	Must use for specific purpose. Government can claw back funding if local authorities don't use it, or do not spend it in line with funding conditions	Public Health Grant
Unringfenced general grants	£25 billion	Local authorities can use it for any purpose within their legal powers.	Revenue Support Grant
Unringfenced targeted grants	£7.8 billion	Provided for a specific purpose but local authorities can reallocate funding to other activities and departments have no power to claw it back.	Local Sustainable Transport Fund

The £25 billion comprised 6 unringfenced grants, including Revenue Support Grant (£14.5 billion) and retained income from the Business Rates Retention Scheme (£9.5 billion). The latter is not central government money, of course, but money raised by local authorities themselves, which the government benevolently allows them to keep.

The unringfenced 'targeted' grant comprised 45 different grants. According to the NAO 91% of departmental funding to Councils is unringfenced. This is designed to increase 'local flexibility' under its 'localism' agenda.

In its 2010 spending review the government set out its plans to reduce local government funding by 26% over 4 years. The NAO says that the government “wanted to give local authorities freedom to be innovative and efficient, against increasing financial challenges”. In other words in gave them the responsibility to decide how to implement these unprecedented cuts locally.

One aspect of 'localism' was to cut the 'burden' on local authorities having to report to central government. Of the £36.1 billion provided to local authorities, 78% has no reporting, 21% involves reporting from the grant recipient and 1% involves third party scrutiny. So the government has scarce evidence of how this money is spent.

The impact of the cuts

The National Audit Office (NAO), in a recent report, says that funding for local authorities will fall by 28% 'in real terms', that is taking account of inflation, over the spending review period of 2010-11 to 2014-15. They estimate it will reach 37% by 2015-16. Taking account of their 'spending power' (that is government funding plus the income from council tax) this equates to a 25% cut on average in their overall income. However, the impact on different authorities is greatly varied. Metropolitan boroughs will lose on average 41%, County Councils 33%.

The impact of funding cuts hits those authorities with a lower level of council tax income harder than richer authorities. So, for example, Councils have on average increased spending on children's social care by 6.8% between 2010-11 and 2014-15. However, amongst authorities with the highest spending reductions, spending on this service has *fallen* by 4%. In authorities with cuts low relative to their income it will increase by over 14%.

SIGOMA[2], the Special Interest Group of Municipal Authorities, estimates that the loss of funding for their members (including 33 metropolitan Districts and 12 major Unitary Authorities) was on average £158 per head, compared to a loss of just £18 per head of population for the South East and **a gain** of £45 per head for London. By 2017/18 this will have risen to £318 per head compared to £92 for the South East and £70 for London. Add the impact of Welfare Reform and it doubles to £685, compared to £436 for London and £305 for authorities in the South East.

Funding cuts have had a massive impact on staffing levels. Excluding the schools workforce local authorities reduced 'full-time equivalent posts' by 16.6% in just three years, from 2010-2013.

Whilst Councils have tried to protect core services “there is emerging evidence that funding reductions have led to a fall in service volumes”. Despite increased demand, core services such as homecare and day care for adults and residential care for adults and children, have reduced since 2010-11.

2 See http://www.sigoma.gov.uk/Documents/Public.aspx?year=2013&id=92

NAO says that the DCLG is unable to make an assessment of the impact of cuts service by service. The Department "used partial information to comment on HM Treasury on a proposed 10% reduction in 2015-16 in the local government departmental expenditure limit." The assessment of how they could find savings did not cover services such as libraries, youth services and standards trading. "None of the submissions assessed the capacity of different types of authority to manage further reductions."

Legally, local authorities are obliged to balance their budget, so despite talking of protecting 'front-line services' they are forced to cut services to do so. This means that there is a big question mark over whether they can carry out their legal obligation to provide statutory services. Yet the DCLG "does not monitor the impact of funding reductions on services in a co-ordinated way". There is, of course, a political reason for this. The government does not want to hear that local authorities cannot fulfil their statutory duties if they implement this unprecedented level of cuts, since it has been set as an absolute target by Osborne and Cameron, *regardless of the consequences*.

The level of cuts impacting on individual services is staggering. Here's the median (midway point) change for service areas from 2010-11 to 2014-15. For adult social care and children's social care the figures are from 2010-11 to 2013-14.

Median change for service area

Service area	% cut
Planning & Development	-46.5%
Housing	-33.3%
Cultural & recreational activities	-28.9%
Highways and transport	-20.4%
Environmental and regulatory	-17.6%
Central services	-11.3%
Adult social care	-8.3%
Children's social care	-0.1%

Note: Housing refers to the duties unrelated to the Housing Revenue Account for Council Housing.

Here are individual services which have suffered reductions higher than the service areas in which they sit.

Planning & Development		Building control **-55.8%**	Environmental initiatives **-48.6%**	Economic development **-47.5%**
Housing	Housing welfare: supporting people **-45.3%**	Other welfare services **-42.9%**	Housing strategy and other **-37.9%**	Other Council property **-36.9%**
Cultural & recreational activities			Tourism **-43.2%**	Recreation and sport **-39.6%**
Highways and transport	Traffic management **-43.0%**	Structural maintenance **-27.9%**	Transport planning, policy and strategy **-27.5%**	Environmental, safety and maintenance **-25.2%**

Environmental and regulatory			Community safety **-47.1%**	Regulatory services **-32.6%**
Central services	Local tax collection **-29.4%**	Emergency planning **-27.0%**	Corporate and democratic core **-26.9%**	Other court services **-23.1%**
Adult social care		Services for asylum seekers **-54.5%**	Other adult services **-27.8%**	Adults with mental health needs **-9.8%**
Children's social care			Services for young people **-34.1%**	Youth justice **-11.5%**

Here are individual services with lower reductions than the median for their service areas.

Planning & Development	Development control **-38.3%**	Planning policy **-33.2%**	Community development **-33.2%**		
Housing	Housing benefits administration **-23.1%**	Homelessness **2.6%**	Housing benefits: rent allowances **137.0%**		
Cultural & recreational activities	Culture and heritage **-27.9%**	Open spaces **-25.8%**	Library service **-25.4%**		
Highways and transport	Public transport **-8.1%**	Parking services **-5.2%**	Street lighting **-4.1%**	Winter service **-1.1%**	Airports, harbours and toll facilities **10.7%**
Environmental and regulatory	Street cleansing **-13.2%**	Waste **-11.7%**	Recycling **-9.4%**	Flooding and related services **15.0%**	Other environmental and regulatory services 16.3%
Central services	Non-distributed costs **-4.6%**	Other central services **-3.2%**	Coroners' court service **0.8%**		
Adult social care	Services for older people **-7.5%**	Adults with physical disability **-7.2%**	Service strategy **-3.7%**	Adults with learning disability **-2.3%**	
Children's social care	Children looked after **2.5%**	Safeguarding children and youth services **5.8%**	Family support services 20.1%		

As you can see, even those services which are lower than the median reduction for service areas, are in some cases still very deep cuts. Below you can see the impact on adult services. Reductions were started by the previous government but increased significantly under the coalition. The table below shows the percentage change in activity (based on weeks of care) starting from 2008/9. Daycare has been especially hard hit.

Change in local authority activity in adult social care 2008-9 to 2013-24

	2008-9	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Residential care	100	98.6	97.81	95.05	93.18	91.52
Nursing care	100	95.14	92.44	92.58	91.64	91.59
Home care	100	95.93	91.87	84.27	80.37	80.38
Day Care	100	92.67	85.34	72.33	64.64	59.59

<u>“Financial sustainability”</u>

The NAO's language is always diplomatic but its findings at the very least place a serious question mark over the ability of local authorities to manage the unprecedented level of cuts that central government has imposed on them and which they face in future years[3]. The NAO report on “financial sustainability” found that local auditors “are increasingly pessimistic about single tier and county councils, particularly metropolitan districts and unitary authorities. Auditors have raised concerns about the capacity of 56% of both types of authority to deliver their medium-term financial strategies.” NAO says that ensuring that local authorities remain financially sustainable “in that they deliver their statutory duties to a sufficient standard, is becoming more difficult.” Moreover,

“The impact on services caused by the funding reductions is more difficult to discern. A lack of services affects users and can be poor value for money. *This increases costs in the long run or pushes costs onto other service providers* (my emphasis).”

In practice the government has loaded more cuts on local authorities without any consideration of the impact of previous cuts and whether or not they have sufficient funds to carry out their statutory duties as some of the reductions shown above indicate.

<u>Recommendations</u>

The NAO recommended that the DCLG should

- “publish a real-terms time series of change in individual local authority income since 2010-11. It should base this on revenue spending power and update it every year so that the cumulative impact of funding reductions on individual authorities is clear.”
- “analyse savings so far from local authority transformational schemes and the time-scales involved”
- “have a clearer ongoing understanding of whether authorities' funding is sufficient to support their core services.”
- “strengthen its processes for assessing la funding requirements at future spending reviews.”

The Department expects councils “to manage future funding reductions by transforming the way they deliver services” but “has limited understanding of the size and timing of resulting savings.” The Department “has not yet assessed whether such projects could deliver savings which are large and timely enough to enable local authorities to maintain services.” It remains doubtful that these recommendations will be followed because they would mean accepting that the cuts are unsustainable in the sense that more and more Councils will be unable to fulfil their legal obligations in relation to mandatory services.

The 'medicine' is killing the patient

As we approach the General Election the impact on local authorities and the prospect of deep cuts to follow should the Tories find themselves in government again, has elicited an unusual cross-party response from local authorities. A letter signed by 65 Labour Council

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3 It pre-dates the autumn statement which increases the dose of the 'medicine'.

leaders, 40 Conservative and 10 Liberal Democrats stated that "further reductions (in funding) without radical reform will have a detrimental impact on people's quality of life and will lead to vital services being scaled back or lost altogether". They also express concern that the rising costs of care for the elderly "will not only jeopardise our services but will push costs onto the NHS which will have to pick up the pieces if we cannot protect adult social care or provide the services that will keep people healthy".

The recent autumn statement underlines the threat to local government as well as other services. The cuts programme in the next Parliament would be even deeper than that which has been implemented thus far. The OBR says that only 40% of the cuts will have been carried out by the end of this financial year, leaving 60% to be achieved during the next Parliament. The social consequences of this would be disastrous.

With health, education and international development ring-fenced the scale of cuts which Osborne is proposing would add up to what the Economist describes as "a looming massacre of the unprotected budgets for welfare, local government and defence". They estimate that day to day departmental spending would have to fall from £147 billion today to £86 billion in 1919-20. This is infeasible and, moreover, is based on a very dubious estimate of growth by the OBR.

'Devolution' and local government

The 'devolution' of powers from Westminster to Scotland has ignited a debate about 'devolution' of powers within England. The only measure thus far by the government involves the granting of powers to a "metro mayor", covering Manchester and a wider north west district. This is a measure with no democratic mandate in an area where the electorate in Manchester and Bolton have previously rejected a mayoral system in a referendum. What is needed is not a concentration of powers in the hands of an individual (such as the Mayor of London who can override decisions of the London Assembly) but a devolution of powers that Westminster has over local authorities. The simplest form of devolving power would be to enable local authorities to keep all the business rates they raise. To take the example of Swindon it collects around £107 million yet the government grant that the town received was only £64.9 million last year. If it was able to keep all it's Business Rate income then there would be no financial crisis. That measure alone would, of course, mean that the wealthier areas would be better off still. What would additionally be required would be a central government top-up, like the old Rate Support Grant, based on an estimate of local needs, updated annually.

In a follow up article I will look at the debate on English 'devolution' for local government. The debate is more advanced than most people know, with the Communities and Local Government Committee having put forward a series of proposals.

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