



## **Submission to Spending Review 2015**

### **Introduction**

We welcome the Government's commitment to 'transforming the approach to local government financing and further decentralising power in order to maximise efficiency, local economic growth and the integration of public services'<sup>1</sup>.

Local government plays a pivotal role in the lives of people and businesses and it is helping enable the Government to achieve its fiscal, social and economic objectives. In the North East we have strong and ambitious plans for economic growth, for finding new, integrated ways of working for public services and for achieving development which will be good for the North East, its people and businesses and for the country as a whole. The Spending Review and its impact on local government will be critical, therefore, for the future prosperity of places and communities such as ours.

We envisage that Treasury, DCLG, Health and other Government Departments are working hand in hand on the Spending Review and the detailed outcome for councils, as whatever DCLG determines in terms of its handling of the resources which come to local government will have a fundamental effect on the sector's ability to deliver for the Government as a whole. We would hope that recognition will be given to the financial impacts felt by local government of funding challenges facing the NHS, health trusts and CCGs and the potential impacts on councils through the shunting of downstream costs. This is a key concern given that cost pressures in providing adult and children's services and public health functions continue to escalate.

Added to this, we believe that if we are to meet the challenges and opportunities ahead, the fundamental issues that surround the financing of local government require careful resolution through cross-departmental discussion and agreement. In relation to the Government's devolution agenda, there are clear asks coming forward from the North East Combined Authority and the Tees Valley Combined Authority. Devolution of powers, resources, freedoms and flexibilities to enable areas to maximise economic opportunities must be accompanied by adequate resources to local government in order to realise these for the benefit of economies, communities and people.

We have already managed and delivered savings targets, following significant cuts in RSG and other grants since 2010. A 40% reduction in funding during the five years of the last Parliament has created huge financial challenges for councils across the

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<sup>1</sup> HM Treasury Spending Review 2015 guidance document, 'A country that lives within its means', July 2015

country – with the sector having made £20 billion worth of savings. Evidence shows that the 40% central Government grant reduction has disproportionately hit the areas with the highest need, such as the North East, the hardest.

This level of reduction has dramatic and damaging consequences for councils' ability to fund statutory services such as children's and adult social care.

We have endeavoured to manage demand, deal with increasing cost pressures, maintained services where possible, taken on new roles including establishing Combined Authorities, and have been continuing to deliver despite reduced capacity, resources and increasing pressures.

Great play is made of the level of public satisfaction in local government, and how well the sector has coped with managing austerity. It has to be said, however, that the full impact of the current cuts has yet to be played out in its entirety, and the prospect of further cuts mean that protecting valued statutory and delivering non-statutory (e.g. economic development) activities remains a real challenge. The National Audit Office's recommendation for Government to undertake a full assessment of the impact of the cuts in different places together with a robust approach to an Equalities Impact Assessment is essential. In addition, analysis of the impact of the cuts to date alongside future forecast reductions for individual councils are necessary before any further funding decisions are made.

Our resources are stretched and given we want to be able to continue to deliver strongly on the Government's economic programme and its ambitions for public sector integration, resources cannot be further stretched without there being real and profound impacts for people and public services. A combination of rising demand and reducing resources will see a significant erosion of services that citizens and communities value and expect their council to be able to deliver, with the net result of there being a postcode lottery of service provision across the country which cannot be fair, equitable or sustainable.

### **Alternative approaches that would make a significant difference**

We believe there are alternative approaches the Government can take in the Spending Review that would make a significant difference.

- As a valued part of the fabric of the UK, ensure local government is a **high priority** for central Government support;
- Make a commitment to a needs - based system of funding that recognises and protects those areas of the country with the highest and most complex needs and demand pressures and for a needs based assessment to form an integral part of the assessment of public health funding;
- Don't allocate cuts on the current (broken) system. It is not just the North East that continues to be adversely affected. Instead, **institute an urgent consultation about fairer options**;
- Recognise resource equalisation as a core principle of a fair funding system; its erosion since 2013/14 is unfair and one of the main causes of the extra funding cuts to deprived areas with low tax bases;
- Focus on the delivery of a fairer approach to the allocation of local government funding across the country that addresses the current disparities and disproportionate impacts – **with an equal change in % spending power**,

based on a fairer and more transparent measure of spending power that excludes funding for new responsibilities. This approach would be more sustainable over the lifetime of the current Parliament;

- Recognise and reflect in any needs based system of funding the characteristics of areas, encompassing rural and sparsely populated places alongside urban conurbations;
- Bring stability into the funding system by introducing at least two year and preferably three year revenue and capital settlements, amongst other measures, to enable councils to undertake proper financial planning and to promote confidence;
- Improve the business rates system and Council Tax, the latter by abolishing referendums for Council Tax setting and precepts;
- Put funding for adult and children's services and public health on a sustainable long term footing;
- Take account of and identify as a new burden the pressures inherent in the summer Budget around pay awards and the National Living Wage;
- Support the 'asks' from the North East as they emerge for freedoms, flexibilities, powers and resources as part of the current dialogue on devolution;
- Take into account that a growing elderly population will not only create significant impacts on the health and social care system but will also have an impact on the funding of concessionary fares;
- Take account of and help us meet other cost pressures such as those as a result of judicial decisions such as Deprivation of Liberties Safeguards (DoLS) and travel time to work in social care, for example; and
- Note that the 1% cut on rents over the next four years will have a significant impact on HRA and RSL business plans with losses estimated for a number of North East councils to be in the range of £100m - £600m over the next 30 years – the impact on providing much needed homes and the management of the additional borrowing that some HRAs took as a result of self-financing will require further measures to redress.

As highlighted above, **we are asking the Government to deliver multi-year – at least two year and preferably three year - revenue and capital settlements for the sector**, among other things, to instil confidence and help councils and their partners plan and move forward together. The current annual approval arrangement for capital expenditure is hampering progress on local growth schemes, some of which require commitment over a longer period and need to proceed at pace. Capital investment is vital for our ability to raise our productivity game and to create economic growth.

**We would also ask the Government to recognise that one-off spending of reserves is not a long term solution to councils' on-going budget pressures.** Maintaining a prudent level of reserves demonstrates sound financial management to enable authorities to plan for and deliver strategies and manage operational and financial risks over the medium term.

### **A pivotal role for local government underpinned by a fair approach**

If councils are to continue to contribute to help deliver economic growth and provide an acceptable level of public services across the country, then fairness and equity in the local government finance system are critically important principles.

This is particularly important in terms of demonstrating that the burden of austerity measures is fairly distributed across the country.

**Given that austerity is likely to remain in place for the next four years, a simple but fair option to put in place would be for revenue support grant to be adjusted so as to give all councils the same percentage cut in their spending power.**

This would mean that when the Secretary of State announces a specific percentage cut in spending power - **this is the cut experienced by all councils across the country**. This approach contrasts sharply with the position earlier this year where only one council actually received the headlined -1.7% cut in spending power, with more deprived councils receiving much higher percentage cuts and least deprived areas seeing increases in their spending power.

We know that the choice of the measure of spending power to be used is important and needs to be considered carefully, however, this appears to be a simpler approach that will send out a strong signal of fairness.

### **The Impact of Business Rates**

This key income stream for local authorities is currently beset by complexities, uncertainty and factors beyond their control or direct influence.

In response to the Government's Review of the Business Rates system, North East councils have highlighted a number of issues to be addressed. These cover:

- The need for a better functioning system which does not unintentionally disadvantage or penalise any area;
- A reformed Safety Net both in the way it is funded and operated (not top-sliced from RSG);
- A fairer more efficient appeals process; and
- The need for better information sharing with the Valuation Office Agency.

It will be important to address these issues as they have a number of impacts on councils, including creating uncertainty around anticipated future levels of funding from localised business rates retention and delivering unexpected reductions in income.

The impact of business rates appeals is a critical issue for authorities. Appeals are both time-consuming and expensive to process and furthermore are producing unpredictable and disproportionate anomalies and perverse outcomes, as illustrated by the following examples:

- A large multi-national company's recent appeal, which if successful, will result in one council in the North East losing £450k on its future revenue income and facing a backdated bill of £2.3m;
- A recently determined Nuclear Power Station appeal will result in a one off liability of £1.5m and an on-going revenue reduction to a North East council (Hartlepool Borough Council) of £3.9m - this one appeal has reduced that council's business rates yield by 19%;

- Despite incurring costs in providing services to multiple occupancy student accommodation complexes, local authorities cannot recover these costs through the current business rates or council tax systems; and
- The failure of the Safety Net to recognise the financial impact of a single major business from either a successful appeal or business closure. Both situations are outside an authority's control.

### **Improving Council Tax**

No referendum is required for central Government to increase taxes: this is seen as part of the mandate granted to Government at a General Election, for the lifetime of the Parliament. The same should apply to Council Tax. In other words, Council Tax referendum limits should be abolished. If they are not, there should at least be greater flexibility for the referendum to be expressed in monetary rather than percentage terms, flexibility over the date for a referendum and also that councils should be able to provide information about the referendum and its implications until the day of the ballot.

With regard to Council Tax support, there are still restrictions covering protection to low income pensioner households which mean that it has not been completely localised. Also, the funding received by councils to deliver the support has been significantly cut. As a result, councils have had to cut back elsewhere to meet the gap or increase Council Tax, meaning in effect that the same Council Tax payers are funding support for others. Furthermore, the national tax credit changes announced in the 2015 July Budget will increase the future cost of operating local Council Tax Support schemes.

As a fundamental point of principle, local government ought to be in a position to exercise greater local determination in relation to improving the Council Tax system in their areas and apply more discretion in relation to discounting and income generation measures. These changes would add considerably to a freer role for local authorities and the communities they serve and would be much more consistent with the devolution agenda.

### **Delivering for Adult Social Care and Children's Services**

As Adults and Children's Services now account for up to 65% of councils' budgets, they are expected to make significant contributions to local authority savings targets. This coincides with a rise in demand and the impacts of welfare reform. Councils in the North East are engaging in transformational change and creating, with partners, new ways of delivering services. Within Adults and Children's services, ten out of twelve Directors in the region now hold 'twin hat' roles. Whilst this provides us with a unique challenge, particularly around capacity, it also provides a unique opportunity to do something different.

That said, there is a particular context in which we are operating, as North East councils have been hit the hardest by the cuts over the last 5 years, and some of our pressures add a particular urgency to ensuring that there are sufficient resources in the system to continue to deliver statutory services and discretionary preventative measures which can help reduce cost pressures across the public sector.

Service transformation, pooling/aligning budgets and integration (e.g. BCF, Vanguard etc) are helpful but are not panaceas.

### **Adult Social Care**

Adult social care is under extreme demand pressure. Costs have been managed by a combination of cost cutting and cross subsidy but have, inevitably, led to a reduction in wider preventative wellbeing services such as day facilities for social care clients and carers support, libraries, and other services. Managing pressures has also led to a reduction in capacity and, at the same time, an increase from the centre in demands for monitoring, management and so on.

The arguments have been well rehearsed at national level but it is worth restating that over the last few years, the adult social care funding gap has continued to grow due to grant reductions, demographic changes, demand and inflationary pressures. An ambition for 24/7 service delivery can surely only be delivered if social care is adequately funded.

We know that preventative, early intervention and other measures lead to reductions in long term and acute care needs and expenditure on more expensive clinical interventions. Account needs to be taken, therefore, of adequately resourcing councils to effectively deliver these services. Support and incentives from central Government would be welcomed in addition to the collaborative and joined up approaches councils are taking locally and regionally with health sector partners.

The NAO has warned that councils 'face a £50m black hole' due to potential shortfalls if funding of the Care Act is not fully met, which is a concern for councils, who have also already had to find funding to plan for and invest in additional capacity to deliver the statutory requirement of the Care Act.

**Added to this, there are significant pressures on councils' budgets arising from the Chancellor's recent announcement of the new National Living Wage – as well as those resulting from a number of judicial processes.**

Analysis undertaken by the LGA has found that implementing the Government's National Living Wage policy will cost councils £1bn a year by 2020. Based on the LGA's calculations, councils would need an estimated £330m in 2016 to cover the increased contract costs to home care and residential care providers of paying staff the new wage. This cost pressure would then rise by around £170m a year, reaching £1bn by 2020. It is vital that these costs are considered by the Government as part of the Spending Review and wider debate on resources for local government.

The announcement to close the **Independent Living Fund (ILF)** and the transfer of responsibility for supporting ILF users in England to local authorities also places additional financial pressures on local authorities. The users of the ILF include some of the most severely disabled people in the UK, who rely on these payments to maintain independence. No commitment has yet been given by the Government to continue funding ILF users at the current rate, however, should funding for this important service be cut then this will have a significant impact on the estimated 18,000 users. Councils are not in a position to make up a funding shortfall caused by a Government cut to the ILF from other parts of their budgets and so we would ask the Government to commit funding to existing ILF users fully in 2016/17 and beyond.

**Gaps and uncertainties in relation to funding for the Care Act, the National Living Wage, ILF and costs arising from judicial processes need to be addressed with urgency and arrangements put in place to ensure they are affordable and on a sustainable financial footing.**

Longer term, adequate settlements for health and social care are needed in parallel with additional funds to provide continuity to existing provision whilst new arrangements are being developed and bedded in. Some 'double running' of new investment alongside 'business as usual' would bring greater capacity and confidence in the system until savings start to be realised in a significant way.

Certainty of direction of travel for integration and pooled/aligned budgets would be welcomed. Transformation funding for both social care and health would also be extremely helpful at this important juncture and would help deliver Government ambitions for change.

We have, in the past, also raised with Government the capacity and expectations on Health and Wellbeing Boards. They play a critical role in co-ordinating health and social care in a location but operate largely on a shoestring and have a very particular role within a local authority. Clarity of expectation alongside support for developing the capacity of HWBs would be welcome.

In addition to this, there are significant pressures being exerted by the Supreme Court Ruling on Deprivation of Liberty Safeguards (DoLS) which have yet to be addressed. Nationally these are estimated to be around £100m a year for councils. The Health and Social Care Information Centre show that in the nine months since March 2014 there have been approximately 90,000 DoLS applications – a tenfold increase on previous activity levels nationally. North East local authorities have experienced 10-30 fold increases in DoLS referrals. This needs to be dealt with as a matter of urgency.

The proportion of winter pressures funding that comes to local government is very small in comparison to that which goes to the NHS. And yet it is social care that can often provide the answers to dealing with winter pressures. This, too, needs to be addressed.

### **Children's Services**

All partners are committed to long term sustainable development in all services. Indeed North East pupils achieved the biggest rise in A\*-C grades across the whole of England and Wales and sustained year on year improvements in the % of students achieving 5 A\*-C grades in GCSEs including English and Maths. But we are by no means complacent and the commitment to a North East Education and Skills Challenge underscores our ambition and understanding of some of the challenges and opportunities we face.

Alongside our role in schools improvement, however, the broader role and responsibility councils have for children and young people is under extreme pressure. In other submissions, we have consistently highlighted some of the issues facing our councils including a significant rise in Looked After Children.

This national increase is highlighted by the LGA but there are significant differences in where the additional pressures are falling around the country, with several councils in the North East facing a much higher increase in number of Looked After Children, which are strongly linked to pressures on families caused by poverty. Based on the most recently published figures, the North East as a region has seen a 30% increase in the numbers of Looked After Children.

**These issues present a real challenge and pressures such as these add up to an unsustainable future if the measures we are setting out in this paper are not addressed.** This is in nobody's interest, least of all the most vulnerable in our society.

Having the ability and resource not only to deal with acute issues such as looking after children and adults, the importance of councils being able to spend money on discretionary preventative measures to embed reducing demand and helping to achieve economic and social growth – for example investment in public health (see below), troubled families, skills and employment etc is crucial for all our futures.

### **Public Health Funding**

Our councils have always placed great emphasis on the efficacy of public health actions and activities to improve both the health of our population and their wellbeing and the move to give responsibility to councils for public health has been well received. It is with some alarm though that we see a lower priority being afforded to it through, for example, the recent £200m reduction in funding for 2015/16 (which will have to be absorbed) and no uplift for inflation, particularly in view of the prevailing health inequality challenges that the North East faces.

In the North East councils place public health at the centre of their agendas on a wide range of issues to help economies and societies grow and to release pressure on primary and acute health services, among other things. We have had some real successes and are looking to promote our achievements locally and nationally to encourage others to embrace some of the good practice that is happening – including through our localities and our collaborative work in 'FRESH', 'BALANCE' and 'Health at Work'.

We want to sustain and develop this work, tackle prevailing health inequalities and fund early intervention and preventative measures that lead to better health outcomes and in the longer term reduce cost pressures on the NHS. There are some things that the Government should consider to help support our efforts. These include revisiting and reviewing the way in which the central funding for public health is being spent to enable any savings to go towards the protection of front line services through councils' pivotal role in public health.

### **Summary**

The issues we set out reflect our genuine aspirations for a strong and prosperous future for our places and communities which is a matter for everyone.

We welcome the Government's desire to transform the approach to local government financing and to further decentralising power. There is a real opportunity to more fairly allocate funding and to address the current disproportionate impacts of the cuts

which year on year have seen very high cuts in spending power for the most deprived areas and increases in spending power for the wealthiest.

There is a real opportunity for this Government to act on the growing evidence base, including from the National Audit Office, Public Accounts Committee and Institute for Fiscal Studies, all of whom highlight concerns about the future financial sustainability of councils - which we feel cannot be ignored, without risk of serious consequences for councils' ability to fund statutory services.

We are all keen to see reforms brought forward that will deliver a funding system that is fair, transparent and sustainable. It is in all our interests to have functioning councils with sufficient resources to support the development of strong economies and societies that can then better support the provision of high quality local services. The current dialogue on devolution and the drawing down of resources, powers, freedoms and flexibilities is important for this area of the country, with propositions coming forward from the North East Combined Authority and the Tees Valley Combined Authority.

We are, as ever, keen to work with the Government on finding sustainable solutions going forward and make an open offer of further engagement and discussion. We have a number of technical solutions which would help achieve some of our asks and are happy to share and develop these further with officials.

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*The Association of North East Councils (ANEC) is the representative voice for local government in the North East. It represents all 12 local authorities in the North East, throughout Northumberland, Tyne & Wear, Durham and the Tees Valley on issues of concern to them and the communities they serve. It is a cross-party organisation, with all of its members democratically elected and accountable politicians.*