Appendix B

DRAFT RESPONSE TO LGA/CIPFA INDEPENDENT COMMISSION

Darra Singh
Chair
LGA/CIPFA Independent Commission into Local Government Finance
1 More London Place
London
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Dear Darra,

As we move towards the General Election in 2015 and the subsequent policy direction from a new Government, councils in the North East are considering in the context of continuing constraints on public spending, how future reform of finances and public services may be achieved in a more fair and equitable way.

ANEC member authorities welcome the creation of the LGA/CIPFA Independent Commission and regard the Commission's work as a real opportunity to inform and influence debate over the coming months.

In response to the Call for Evidence, we would like to highlight a number of key issues and impacts in relation to the current local government finance system and those principles that we consider are critical in respect of future changes to the resourcing of councils in the lifetime of the next Parliament and beyond.

We set out a summary below, and also enclose a recent report on 'The future for local government' produced by ANEC, and independent research into the financial impact of the cuts on North East Councils, published earlier in the year, by way of background.

<u>Context</u>

As highlighted, including in our recent conversations with both you and Rob Whiteman, North East councils are committed to supporting sustainable communities and are working closely with the private sector to create the right conditions for economic growth. We recognise entirely the importance of continuing to maintain focus on the positive strengths and assets that this area of the country has to offer to the national economy as a place to live, work and invest in. North East councils are fully engaging in the transformational change agenda, exploring with partners new ways of delivering services, reducing costs and as far as possible protecting vital public services. Our councils have been reviewing service delivery in order to make the best use of resources and examining all opportunities for more efficient delivery through a range of means including demand management, channel shift, asset management and in areas such as collaborative procurement and closer working relationships with health services.

In the North East, however, the reality is that we have reached a position whereby **annual reductions in funding and spending power are too deep, too fast and the impact too inequitable to be matched by savings from efficiencies and service transformation. Vital frontline services are being cut and stopped altogether in some areas and the position for many local authorities is worsening.**

Commission members will be aware of the scale of such reductions at a national level, including the recent analysis by CIPFA that demonstrates that councils' spending per head of population has fallen back to 2005 levels and that councils in the most deprived areas of the country and in the North East, in particular, have seen the biggest spending cuts.

<u>In summary, we have seen or will be seeing:</u>

- Higher than average reductions in spending power in the North East; 11 out of 12 councils will have higher than the English average reductions in spending power for 2014/15. North East councils have a 5% fall in funding in 2014-15 compared with 2013-14.
- The cut in £/per dwelling will be 10 times the cut in the South East and the % cut is almost 4 times that in the South East.
- A further 7.2% cut in spending power over the next two years and the implications of this for local services at a time of increasing cost pressures and concerns about the longer term financial sustainability of councils – compounding reductions over the last 3 years.
- Disproportionate cuts accelerate the challenge of funding statutory services and the financial crisis facing councils. The North East with much higher cuts and lower reserves is particularly vulnerable.
- In the North East we have higher and more complex needs in areas such as children's and adult social care. In 2014/15 there will be a national -11% cash cut in grant to councils and by 2015/16 a -25% cut in general funding for services, including areas such as children's and adult social care where authorities have statutory responsibilities and demand pressures are rising. It is difficult to see how these levels of cash cuts can be made without having a detrimental impact on services that are aimed at helping some of the most vulnerable people in communities.

Evidence clearly highlights that cuts in funding have had an inequitable, unfair and disproportional impact on the most deprived authorities, including those in the North East. The problem is compounded by higher levels of demand in the North East, arising from deprivation and demographic pressures. The Government's stated intention of moving from a needs-based to an incentive-based system of local government funding diminishes the prospects of redressing the situation for less prosperous areas.

In the Commission's work on recommending changes for the future, the key principle that we would want to see embedded in any new system is fairness and equity. The public in all parts of the country should have a right to a similar level of service, particularly services that Parliament has set as a statutory duty for councils to provide. This is essential to avoid a stark postcode lottery scenario where basic services cannot be provided in the poorest areas. The finance system for local government, whatever it is, should ensure that this is delivered. Among other things, the different demand pressures to provide services, including the impact of deprivation and the ability to raise income from local taxes should be taken into account.

CIPFA's own recently released figures show that the North East has seen the sharpest fall in spending on local services of any region since last year. Between 2013-14 and 2014-15, total spending in the region would fall by 5% from £5.1bn to £4.8bn. From our perspective, it is important that the research also highlighted the considerable regional variations in spending on services, confirming that some councils have been hit harder than others and that to prevent the financial failure of vulnerable local authorities, some councils will need more support.

In addition:

- There should be a radical re-think about the future for local government, the way councils are funded and the areas they are and should be responsible for - in the context of councils being seen as pivotal leaders of place, working with partners.
- There should be a comprehensive and transparent analysis of how Spending Review and Budget decisions in the next Parliament support economic re-balancing between regions.
- Meaningful devolution of significant levels of un-ringfenced spending on areas relating to economic development and other areas that will better enable the prioritisation of funding for the lifetime of the next Parliament.
- An assessment of the cumulative and re-distributional impacts of the local government funding system needs to inform future funding decisions.
- A multi-year financial settlement covering the life of a Parliament that will give councils greater certainty for financial planning.
- Solution-based approaches, which we can help develop, that will address concerns about the future financial sustainability of councils and the reductions in funding and spending power that may mean councils cannot meet statutory responsibilities – this is a real risk in the North East.
- If cuts are required over the whole of the next Parliament, we would ask that a more honest assessment is made of the overall 'real' pressures facing councils, taking account of inflation and any changes in spending pressures.

- Where possible, statutory pressures should be reviewed and reduced as a joint collaborative initiative between central and local government to help deliver some of the national cuts that may be asked of local government.
- A genuine commitment to place based budgeting, working across public services and sectors.
- Increasing the flexibility of decentralised funding available to councils and partners and ensuring that sufficient resources are available to support early intervention and prevention initiatives aimed at reducing future demand pressures and costs for the whole of the public sector, delivering value for money improvements over the medium and long term.

  Learn from the past and build on what works. The Troubled Families initiative has been successful in large measure because whilst there are headline targets to meet, councils and their partners are able to work flexibly, and the resource is there to deliver. We would recommend that the Government enables this type of approach in relation to working with individuals and communities to promote independence for older people (as a means of prevention, among other things).
- For us, the Scottish Referendum will also have an impact, whatever the outcome, and this too needs to be considered.

Fairness and equity

ANEC member authorities have consistently raised with Government the issue of fairness and equity in funding decisions and we have plenty of evidence available to demonstrate the issues that we currently face as a result of the recent changes to funding.

We think it is significant that organisations such as Joseph Rowntree Foundation, the National Audit office and SIGOMA are also highlighting the potential impact on public services of significant cumulative cuts in funding and spending power of councils. The work that ANEC has undertaken in relation to the re-distributional impacts of the current funding system as they impact across different areas of the country will we hope have made a valuable contribution to understanding and addressing this issue. Illustrative examples, heatmaps and graphs are attached in Annex A.

Over the lifetime of the next Parliament, councils are concerned that their shrinking spending power may not be sufficient to meet statutory responsibilities and may put at risk their financial viability.

In this context, North East councils, the LGA and others are asking ‘is local government as we know it sustainable?’ given that between 2010 and 2015 there has been a 40% cut in core funding to councils and statutory service demand pressures are not reducing with further cuts being proposed up to 2018/19, over the next Parliament and beyond.

In the North East, cost pressures in delivery of vital public services are compounded by greater levels of demand arising from higher and more complex needs. As Commission members may already recognise, demand for services – particularly social services – tends to be greater in the North East as a consequence of long-standing socio-economic conditions; higher rates of unemployment, lower than average incomes and generally poorer levels of health, disability and premature mortality. At the same time, needs are increasing. For example, in the North East, 17.3% of the population is over 65 compared with 16.3% for England as a whole and the proportion of older people is growing more quickly in the North East than in other English region. Numbers of Looked After Children have grown by over 30% in the North East since 2009 (over 9% nationally) and the North East now has the highest level of Looked After Children in England (over 80/10,000 children), which is almost twice the level of the South East with 47/10,000. For some individual councils the demand pressure is 5 times the level in the least deprived councils. At the same time, funding for children's social care has been cut dramatically with no reference to the increasing spending pressure.

The main causes of the disproportionate cuts in funding and spending power which is resulting in greater cuts in the most deprived areas of the country and much smaller reductions (and in some cases increases) in spending power in the least deprived areas of the country relate to the way that needs are no longer being taken into account, the way topslices and funding holdbacks are made and the dramatic change in the recognition in differences in resources (ability to raise council tax) since 2013. The ability to raise income from council tax varies widely across the country depending on the mix of properties in the various tax bands. If all councils were to set an England national average Band D council tax of £1,468, the average amount of council tax raised in England would be £1,367 per dwelling. However, councils with low tax bases like South Tyneside would only raise around £1,111 per dwelling, whereas Kensington and Chelsea would raise around £2,047 per dwelling. This is illustrated in more detail in Annex B.

The North East as the poorest, most deprived area in the country has, unsurprisingly, the highest proportion of dwellings in Band A in the country (53%) and an England average Band D tax of £1,468 would raise an income of only £1,170 per dwelling to provide services. The wealthiest regions – in the South East and London areas have less than 8% of properties in Band A and would raise an average of over £1,515 per dwelling to provide services.

In the Government's recent Local Government Finance technical consultation, there is a recognition that a reduction in funding is likely to have most impact on the most grant dependent authorities and the level of cuts could impact on protected groups. This is a key point which ANEC member authorities have been making representation about since the start of the cuts in 2010/11. Government has stated that it remains local government's decision to allocate resources and to comply with the public sector equality duty and that it has put in place strong mitigations. However, councils in the North East have reached a position whereby annual reductions in funding and spending power are so deep and the impact too inequitable, that they cannot be matched by savings and efficiencies. Vital public services are being cut or stopped altogether in some areas and the position is worsening. **Mitigations put forward by the Government state that 'strong protections for the most grant dependent authorities are embedded in the baseline', however the continuing pace and arbitrary nature of cuts, topslices and holdbacks operate in such a way that they have, and do, significantly dilute any funding protection to the most grant dependent councils.**

We believe the following could be considered as part of the solution to improve the fairness of the current funding distribution and could be introduced in time for the 2016/17 funding settlement. Our key suggestions are:

- **Restore the Council Tax Resource Equalisation** amount to its 2013/14 level and protect it in the same way that council tax freeze grant is protected. Resource equalisation has previously been accepted by a long line of Governments and the LGA as a core principle of a fair funding system. Its erosion from 2013/14 is unjustified and unfair and one of the major causes of the extra funding cuts falling on deprived areas with low council tax bases.

- **Review the main topslices and holdbacks** that are in place to make them fairer, as outlined below.

- **Safety Net**: the £120m holdback for business rates safety net should be abolished with a different approach taken to managing the risk associated with a high level of appeals and reduced business rate income. The costs of the business rate safety net have been inflated by the flawed way the system has been designed, which gives an incentive to a few councils to front load potential losses on appeal and receive compensation through a safety net payment, while potentially making surpluses in future years. Funding this system should not be met from other councils through allocating a higher holdback to some of the most deprived authorities in the country and we have suggested fairer alternatives to manage this over time.

- **New Homes Bonus Topslice**: the topslice to fund the New Homes Bonus should be immediately reviewed to make any housing incentive fairer. The issue with the current arrangement is the increasing size of the cut in core funding each year to finance the growing 'Bonus' and that the way the funding topslice is applied means a greater cut for councils with the highest needs and lowest resources. **The burden of paying for the increase in the Bonus by bigger annual topslices from existing core funding has become too great and the distributional impact for deprived councils results in perverse effects of large net losses in funding even where they are equally successful in creating new homes.** This perverse effect is highlighted as part of Annex A. The current arrangements are therefore considered to be wholly unfair and the view from many authorities is that unless there is radical reform to improve its fairness and to reduce the cut in core funding, then consideration should be given to completely abolishing the New Homes Bonus arrangements and thereby relying on the sole incentive of retaining the extra council tax income from new homes. Also, some clarity on what is intended to happen to the New Homes Bonus after the six year Government commitment to the scheme, which runs to an end in 2016/17, would be helpful given our serious concerns about the affordability of the scheme and the effects of large net losses in funding for authorities across the North East.

We have previously identified options for change to improve the fairness of the New Homes Bonus, including finding alternative ways of funding the incentive scheme, instead of cuts in core funding, which would benefit all councils (such as using growth in stamp duty or by raising extra income from a tax on student accommodation – currently neither pay council tax or business rates. **The distribution of the cut to fund the NHB could be immediately changed to be fairer and more equal across all councils, e.g. by funding the scheme proportionately to the number of dwellings in an area.**

- **Higher spending pressures (needs) e.g. for children's and adults social care**, **concessionary travel costs; housing/homelessness** should be adequately reflected in spending power availability. The table and charts in Annex A highlight some of the difference in pressures and the need to meet statutory services that exist around the country and in the case of children, how the pressures have increased considerably in recent years. The North East has seen a 30% increase in the number of Looked After Children since 2009 while funding for children's social care has been cut by over 40%.

- **Funding protection to ensure that changes in spending power in future years are more proportionate between areas**, resulting in a fairer, similar percentage change in spending power.

- The level of council tax support should be protected in cash terms for individual councils in much the same way that council tax freeze grant has, as currently it appears that this funding is being cut annually within the SFA and in future years with no planned reassessment until the reset is due.

The North East as an area of the country is more exposed in terms of risk to the financial viability of our councils over the life of the next Parliament. This is due to the relatively high cut in our spending power modelled under the current funding system; the extra demand pressures; the relatively low level of reserves (which have not increased in recent years) and would be quickly exhausted; the lower ability to generate income from asset sales due to relatively low land and property values; and the limited ability to generate additional income from council tax and business rates due to low tax bases. These factors when combined, pose a significant risk to the continuing financial viability of councils in the North East and their ability to deliver public services. **It is therefore essential that the funding**

system is changed to more fairly allocate the funding that is available to reflect need and that mechanisms are explored to help reduce service demands and increase financial freedoms and flexibilities to enable councils to better manage the financial pressures that they face over the medium term.

In responding to the Commission's Call for Evidence on what steps might be taken to tackle some of the challenges we face, ANEC member authorities wish to see:

Housing

A good supply of housing of all types and tenures is an important factor in the economic and social viability of any area. In our localities and areas we understand what is needed and are planning for the future. This is not always helped by 'one size fits all' approaches to resolving the country's housing needs, particularly as housing markets, demand and supply varies significantly in different parts of the country.

For example, it is also worth noting that whilst 'Help to Buy' might be having unintended negative consequences in the South and in London, it has been helpful here and is starting to make a difference. A blanket withdrawal or change to the policy would be detrimental. Nuanced national policy making is essential – alternatively, devolved policy making and funding would be preferable.

In addition, the New Homes Bonus is intended to incentivise local authorities to promote new housing and also to encourage growth in local economies. However, as highlighted above, funding for the New Homes Bonus is top-sliced from Government grant, with the effect that councils serving more deprived communities pay in more and take out less, because both supply and demand are less.

The unfair implications of the New Homes Bonus for the North East have been highlighted above.

In addition:

- The National Audit Office study found little evidence that the New Homes Bonus had made a significant difference to council behaviour towards planning approvals since its 2011 launch.

- NAO study also highlighted NHB allocations have mainly rewarded home creation which was already in the pipeline and that it was unclear whether it would directly lead to an increase in new housing.

- Independent analysis of NHB allocations by the Financial Times has recently shown that northern councils are worse off as a result of the scheme.

- The analysis shows that councils in London, South East and East Anglia have benefitted from £177 million more than they would have done without the scheme.

- The calculations also suggest that the 50 most deprived councils have lost £111 million while the 50 least deprived have gained £96 million.

Historically, as the chart shown by the National Audit Office in its report on New Homes Bonus clearly shows, local councils have played a major role in increasing the numbers of new housing built in the country. Councils should be given greater freedom to support house building in their areas in ways that they believe to be most effective and appropriate to local needs, including the ability to borrow to invest in new or improved housing managed under the principles set out in the prudential code.

For those councils still with a Housing Revenue Account (i.e. housing stock not transferred to a Registered Social Landlord) the ability to borrow beyond the cap is subject to a bidding regime akin to bidding for Homes and Communities Agency grants. This is excessive and prohibits growth and councils should be given the same access to prudential borrowing in the HRA as in the general fund, subject to affordability and the advice of the CFO.

Growth

Councils across the North East are committed to creating the right conditions for economic growth. Using competitive advantage, knowledge, expertise and supported by the work of the North East LEP, the North East Combined Authority, Tees Valley LEP, the business community and partners, the areas that make up the North East are well placed to make a significant contribution to the economic prospects of the nation and are already doing so.

The importance of economic growth and the wider benefits of increasing wealth for the North East and the country as a whole is reflected in the Strategic Economic Plans produced by the two Local Enterprise Partnerships in the North East. Growing the economy and wealth of areas like the North East will enable greater self- sufficiency to fund local services and should in the future also reduce demand pressure and costs currently linked with deprivation and poverty.

This requires considerable levels of investment in infrastructure and skills, which can be funded by a combination of national and local funding. It is important that further opportunities to provide greater levels of investment and greater flexibility of funding (between accounting classifications of ‘revenue’ and ‘capital’ or between years) are explored to give the greatest opportunity for early investment in the widest range of intervention measures that are considered appropriate at the local level. One of the biggest cuts in recent years nationally has been the level of councils' discretionary revenue spending on economic development and business support, which has been cut by over 50% since 2010, which puts at risk councils' ability to support the growth agenda.

Greater freedom and flexibility over the use of existing funding and the use of innovative funding mechanisms is needed to boost investment over the next few years. This investment should produce dividends of reduced demand and cost in future years offering better value for money to the country in the longer term. There are good examples of innovative arrangements and incentives, such as TIF/earnback schemes funded from extra income or cost savings to the public purse, that can be further developed to help boost the capacity and investment needed new to deliver sustained growth. For example, councils investment and efforts to create private sector jobs and reduce employment, can result in significant benefits in terms of cost savings to HM Treasury through reductions in the benefit costs and savings for Departments such as the DWP. While direct income benefits to councils with low tax bases may be relatively small, the opportunity to earn back a small share of the consequent increase in other national tax income to Treasury or cost savings to Departments could be an important incentive that would generate further savings to the public purse.

Business Rates

In the context of our ability to raise income, however, the introduction of a system of localisation of Business Rates system, while in theory giving a financial 'incentive' has so far resulted in a reduction in income to provide core services in the North East and this will continue. The 2014/15 NNDR1 and RA budget returns to DCLG show that retained business rate income outside of Enterprise Zone/New Deal areas are less than the Government's baseline assumptions (possibly by as much as -£40m) and the region has had to pay over £7m to fund the business rates safety net. This appears to be due to the impact of appeals and the lack of growth outside of Enterprise Zones/New Deal areas. In contrast, at the end of the first year of business rate retention, figures show that business rate growth in Enterprise Zones and in the New Deal areas is running slightly ahead of cautious estimates, reflecting the focused effort in these priority areas and opportunities to fund infrastructure. This income is effectively ringfenced, however, to help fund investment in economic growth initiatives.

- NNDR1 figures provided to DCLG appear to show a lower retained localised business rate income levels than the Baseline assumed by DCLG of - £37m for England overall and - £15m for the North East. Gains and losses at a regional level do vary, with losses in the North East, South East and South West.

- RA Budget returns for 2014/15 for the 12 NE councils show an overall reduction in localised business rates income compared with 2013/14, which is £41m less than the baseline assumption used by DCLG in their forecast of the regions spending power. This may be partly offset by potential safety net receipts.
- The cost of the £120m business rate safety net is higher in the North East in terms of cost per dwelling, with a loss for £7.4m for the region. We have suggested alternatives to avoid this cost. The unfairness of the way this is funded is highlighted below.
- The overall impact on revenue budgets is negative although this does vary between councils.

<u>Business Rates Safety Net</u>

Firstly, the continuation of the top-slice for the Business Rate Safety Net of £120 million for 2014/15 and 2015/16 is something we ask DCLG and HM Treasury to re-consider as a change would help all councils across the country. Given the resource reductions facing councils across the North East, and the higher than average reductions in spending power in this area, we have concerns that the Business Rate Safety Net holdback to councils will be damaging to local economies. Based on our assessments, it could potentially result in the loss of over 4,000 jobs directly at a national level and with taking £120 million of further resources out of local economies, many more indirect job losses. Top slicing for the safety net causes councils to have to make the decision upfront of whether to cut service provision, due to the topslice, even though any unused Safety Net may be returned to councils at a later date if not called upon.

There is also a further immediate pressure on the Safety Net due to the business rates system having transferred part of the risk for business rates appeals to councils when previously this would have been fully funded centrally. Outstanding appeals are impacting on the call on the Safety Net which we would urge the Government to address due to the negative financial impact on council budgets and the wider economy. DCLG has created a perverse incentive that some councils can take advantage of by frontloading their estimated cost of appeals and securing a safety net payment upfront while making surpluses in future years. **We suggest that this issue could be resolved by funding outstanding appeals and the Safety Net from the additional central share of Business Rates collected nationally or by a cash flow arrangement which seeks to balance out the costs and benefits to individual councils over a medium term period (say 5 – 7 years).** The consequence of not finding a solution to both of these important issues will result in the continuation of resources being diverted from frontline public services at a time when there are increasing cost pressures facing councils, particularly in relation to adult social care and children's services.

Our analysis shows that the grant holdback is implemented by a percentage reduction in grant, which has a much greater adverse impact on grant dependent authorities, in the most deprived areas in the country, including the North East, and those with the highest percentage of non-white populations. **A national impact assessment is, we believe, critical to fully understand the impacts and implications of this holdback within the funding formula.**

Impacts of Localisation of Business Rates

The localisation of the business rates system potentially allocates extra resources to councils with strong economies and growing parts of the economy such as wealthy and business-rich parts of London and the South East. It also benefits those areas where there is a mix of high value national and international businesses and retail sites. Those least able to generate additional income are the less affluent areas with economies that are not as buoyant or are in decline for reason outside the control or influence of councils, smaller commercial and business areas and those with high rates of out-commuting to neighbouring urban conurbations. The vast majority of areas throughout the North East, North West, Yorkshire and Humber, East and West Midlands and South West and some parts of London, are detrimentally affected by a funding system that is based on their ability to raise income through business rates to provide core and statutory services. In this regard, the localisation of business rates system does not provide the same incentive to economic growth in some areas of the country and thereby creates significant re-distributional impacts that become reinforced over time and harder to address. This is a fundamental issue for North East councils which we would urge Government to address. Whilst we understand that the system is aimed at incentivising growth, creating economic vibrancy across the country is a long term game and one where there will always be differences caused by external factors that are unrelated to the efforts made by individual councils. **To help ensure that communities and businesses do not suffer, the Government needs to ensure that the system is reviewed and updated to maintain a level playing field, creating more effective incentives for areas facing the greatest challenges to grow their economies and to maintain and improve the effectiveness of resource equalisation arrangements within the business rates model over time.**

Given the concerns that are currently being voiced by national and regional local government organisations regarding the scale of budget reductions and the long term financial sustainability of councils, **we would urge that checks and balances are implemented to ensure that there is a level playing field across the country, in the national interest and to help re-balance the economy.** We would advocate that councils *in all parts of the country* have the right incentives to grow their economies and have the ability to retain the income from such. In this regard, business rates are not an ideal proxy for economic growth as they include rates on public buildings and differential rateable values with much lower rateable values for manufacturing facilities than offices or retail premises. This could lead, for example, to small businesses and manufacturing companies being less attractive than retail growth in an area.

To illustrate the point, business rates from retail or commercial developments are significantly higher than manufacturing in an equivalent area. In the North East commercial and retail rates can generate £0.8 million to over £1 million per hectare compared to £0.1 million to £0.2 million per hectare for small business and manufacturing sites. The importance of the manufacturing sector, which currently contributes £7.5 billion to the North East economy, cannot be underestimated particularly as manufacturing in the North East currently exports more than it imports.

Manufacturing needs to be part of a long term national strategy helping to re-balance the economy through production and exports. Under business rate localisation, manufacturing developments could be seen as less attractive propositions, despite the wider economic benefits such as exports, supply chain industries, jobs and skills compared with retail developments, which have the capability to secure greater levels of business income. Allowing business rate retention to a higher level of up to 100% from this sector would partly help redress the imbalance and consideration should be given to further incentives such as an additional manufacturing 'bonus' to provide a more level playing field. This would provide an important and more balanced incentive to local councils to secure and grow this type of business.

Funding Formula Reset

North East councils consider it is essential that the local government finance system includes the ability to reset tariff and top up levels for changing service requirements at appropriate intervals.

We have asked the Government to reconsider its position on 7 to 10 yearly resets as we are concerned that the interval between resets is too long. Given the fundamental nature of changes introduced in April 2013, we consider that an earlier reset takes place either after 3 or 5 years to ensure any adverse impacts within the system can be addressed. It is critical that demographic changes and fluctuations and the needs of an area are updated and reflected within the resources system. The risks of having a lengthy fixed reset period is that it fails to be fully reactive to significant changes in circumstances and needs of local authorities and local areas including economic shifts impacting on business rates revenue. The lack of certainty about when and how the reset will work hinders the ability to build a business case for upfront investment based on returns from business rates. We have highlighted the problems of the 'full reset' of the incentive for retained growth, which diminishes the growth incentive as the reset approaches and eventually produces a perverse incentive to delay growth until after the reset occurs. We would suggest that the option of a partial retain or an opportunity to allow a rolling fixed period of retained growth is examined in more detail as an alternative.

Furthermore, we consider that clarity is required on the timing and results from property revaluation and how these impact on the 'reset' point together with the need for further detail on how the reset will operate. Uncertainty on appeals, which are funded locally means a very cautious approach is needed; national funding of appeals would generate more funding available for growth locally as more is being set aside for risk than is needed.

Impact of Business Rates Multiplier on Local Areas

The reference in the recent discussion paper on the 'Administration of Business Rates in England' that '*A revaluation does not raise any extra revenue for the government…To maintain the revenue raised through business rates at roughly the same amount when rateable values change at a revaluation, the Government adjusts the business rates multiplier (the tax rate) either up or down*' may hold true at a national level, however, **the revaluation and multiplier adjustments could create significant differences in rates income at an individual local authority level.** Whilst this was not considered important under the previous national business rates pooling system it is now an issue with the introduction of the business rates retention scheme mechanism of funding local authorities. Our principal concern is that it potentially creates a system of 'winners and losers' and would add further uncertainty around future resource levels affecting the ability of councils to properly plan service provision.

Welfare

As Commission members are likely to be aware, independent research undertaken by Sheffield Hallam University, 'Hitting the poorest places hardest' (April 2013) shows that the current and planned welfare reforms impact on different places in different ways. The older industrial areas of England, Scotland and Wales, including substantial parts of the North East and North West England are hardest hit, along with a number of seaside towns and some London boroughs. In fact, it is the very areas of the country that are suffering most cuts that are also most impacted by welfare reform. At the other end of the spectrum, a substantial part of southern England outside London is much less acutely affected. **The research also highlights how welfare reforms will also have a particularly severe impact on certain groups and it will be important that outcomes are monitored at national, regional and local levels.**

We already know that welfare reform is hitting the North East harder than most other parts of the country. The North East along with the North West will experience the greatest impact: both are forecast to have an annual loss of £560 per working age adult by 2014/15 as a result of the various reforms, with some of the biggest impacts coming from changes to disability benefits. The loss of benefit income will have knock-on consequences for local spending and local employment. As highlighted by the Sheffield Hallam report, 'a key effect of welfare reform will be to wider the gaps in prosperity between the best and worst local economies across the country'.

Recent research undertaken by Durham University uses the North East Economic Model to assess the wider impact of public expenditure on the region's economies. Over the five year period to 2009/10 to 2014/15 the total impact on output in the region's economy is estimated at £1,605.3m, while impact on GVA is estimated at £997.7m. The relatively small size of the private sector in the North East makes it more difficult to generate additional jobs to compensate. Enabling JCPs to form better local partnerships would bring significant benefit to delivering the objectives of welfare reform.

Specific issues we would ask the Commission to consider as part of its work include:

- **Council tax support -** devolved in 2013 but with a 10% reduction in funding, which is against the logic of Universal Credit which aims to pull together a range of existing benefits into one single (national) benefit. The cut of 10% amounted to a saving of £0.5bn but has had a dramatic effect on some individuals, creates a postcode lottery, and adds to inequity and unfairness. Arrears for 2013/14 are at £836m, up on the previous year's figures of £691m. The strong correlation between authorities facing the greatest Council Tax Support impacts and the highest spending power cuts is clearly evident in the North East, where we are being hit twice. **The level of council tax support has not been protected in cash terms for individual councils in the same way that council tax freeze grant has and so appears to be cut further in future years with no reassessment of spending pressures planned.**
- **Local welfare assistance** (replacement of Social Fund) - DWP funding to be withdrawn from April 2015. There is a need to clarify that funding will be provided within the overall grant settlement to support this activity which aims to support those most affected and at risk. It seems perverse that having developed a better, targeted and cheaper scheme delivered locally has led to the demise of the scheme.
- **Under-occupancy** - as well as causing hardship to already vulnerable tenants, this runs counter to local authority housing strategies over the last 30 years (at least in the North East) which have prioritised family-sized units. This hardship is compounded as the lack of suitable alternative housing forces people to move, leading to a breakdown in community cohesion as families are forced to leave their social support networks. Whilst there continues to be a shortage of affordable housing and tenure types to match the demand from 'under-occupancy' tenancies, and in order to prevent an increase in

enforced homelessness, **a discretionary housing payments specific grant scheme needs to continue at the current level.**

<u>Affordable health and social care</u>

Given the scale of public expenditure reductions, councils are embracing new methods of service delivery with a particular focus on greater integration of services. Nationally the Government is placing great emphasis on the integration of health and social care. It is creating from 2015/16 a £3.8bn pool of (existing) health and social care funding – the Better Care Fund to support the integration of those services, with the aim of getting health and social services to work more closely together to improve the experience of patients and service users.

We are concerned, however, that the **Better Care Fund** has been diverted from its original purpose, with £1bn diverted away to NHS acute services, affecting recently constructed plans. Existing social care related prevention activity will need to be reviewed in light of this. There are also some perverse 'incentives' within the system that need to be reviewed and addressed, for example, as hospitals are (in essence) paid according to the number of patients they treat, they have an incentive to increase throughput, which goes against the logic of the Better Care Fund. Key issues that North East councils are raising with the Secretary of State for Health include:

- the loss of resources that would have been available to protect social care and promote health and care integration;
- the fact that this comes on top of existing financial and demographic pressures;
- the change of focus from meeting local priorities in an integrated manner, to compliance with a centrally determined process.

There is also growing concern that the **Care Act** will prove unaffordable. Whilst there has been funding made available to fund councils' Care Act costs in 2015/16, it is unclear to what extent the costs have been calculated centrally for increased costs post 2016 and how these will be funded. We are concerned as to whether the cap on care costs (due to start in April 2016) is affordable nationally. In terms of eligibility, the draft regulations will lower the threshold and increase demand on services. All of our authorities anticipate an increase in demand for assessments which they will be simply unable to meet within existing resources. Given the budget reductions that local authorities have already had to meet, and increasing demographic pressures, authorities are not going to be able to absorb new burdens without funding to accompany them.

New Cost Burdens

We need a more open and transparent dialogue with central Government to assess accurately and honestly the true costs of any new burdens that are identified or arise and that funding is then allocated accurately and appropriately. The finance system should be able to be adapted to ensure the appropriate level of funding is provided year on year to cover increases in demand which the present system is incapable of as it only being reset after 10 years. For example, a court ruling on assessing when mentally vulnerable patients can be detained in hospitals could cost local authorities an extra £80m as numbers are set to increase under the Mentality Capacity Act – deprivation of liberty safeguards. Sunderland City Council estimates that their costs could be as much as £1m per annum.

With regard to **Health and Wellbeing Boards**, as the place which joins up health and social care services, if the role is to morph into a more overt commissioning function, appropriate levels of funding would need to be made available in order for Boards to effectively undertake this role. Consideration would also need to be given to whether this is an appropriate function for a formal committee of the council.

Whilst recognising these challenges, there are clearly opportunities and benefits in relation to aligning plans, spend and ambition and the of public health into councils has led to greater integration of strategy and planning particularly in the case of prevention.

In the context of prevention, ANEC has gathered evidence in recent years that demonstrate that effective health interventions in the North East are delivering real health improvements and are fundamentally helping to address inequalities. Whilst we would not seek to claim that levels of investment in public health in the North East are singularly responsible for improved health outcomes, since there are multiple factors at play and many organisations involved in improving the health of our communities, **the level of funding available to support preventive measures is a significant contributory factor that has had demonstrable positive impacts.** On this basis, we are strongly of the view that higher levels of funding provision need to be made within North East public health funding allocations for this positive track record to continue and to ensure that momentum is not lost, particularly given the correlation between poor health outcomes and deprivation with employment status and income levels being the most significant factors. In its report on 'Tackling inequalities in life expectancy in areas with the worst health and deprivation' (2010), the National Audit Office recommend that 'greater investment in prevention is necessary if the NHS is to tackle health inequalities now and in the future' – a position that ANEC would support and encourage.

<u>Early support to families and children</u>

In the context of the importance of early intervention and preventive measures, we would ask the Commission to give particular attention to prioritising early intervention in funding for children's services. Nationally, the cut in Children's Social Care funding of around 40% from 2010/11 to 2015/16 is extremely challenging to achieve without significant bridging funds linked to early help, particularly for Looked After Children where demand has increased nationally by around 9% and in the North East by an average of 30%. Budget reductions, rising cost pressures and increases in the numbers of Looked After Children across the North East is a growing concern, as illustrated in the graphs in Annex A.   Service demand pressures increased from 2009 to 2013 with England seeing a 9.3% increase. The North East has the highest increase of over 30% on the latest figures for 2014. Budgets cannot be cut to match funding cuts while meeting statutory duties, which is a real concern for all North East councils.

Significant elements of funding for important early intervention and prevention services and activities are discretionary in their nature. As the pressure of funding cuts grow and the cost of meeting statutory services rises, there is evidence that this activity is being cut, which is potentially a short term expedient with potentially very damaging and expensive in the medium and longer term, not just for councils but for other public sector organisations (in particular health) and the public purse in overall terms. It is important that investment in prevention initiatives is monitored, protected and increased where possible. Funding for troubled families and early intervention should be increased. Options for encouraging and protecting the level of investment in prevention spending should be explored. This could include pooled prevention budgets, which could be ringfenced and protected at the local level, giving greater flexibility to funding that might otherwise be time limited, giving flexibility between capital and revenue funding. Greater flexibility in the local use of funding, such as additional allocations for pupil premium, with opportunities to grow/match funding earmarked for prevention should be explored.

Conclusion

In conclusion to our response to the LGA/CIPFA Commission's Call for Evidence, I should like to emphasise how much ANEC member authorities welcome the engagement thus far with you on key issues of importance to North East councils in relation to the key funding challenges and opportunities we face. We are continuing to develop our evidence of impacts and options for change over the coming weeks and months. We would be pleased to contribute to further information gathering, give oral evidence and engage in discussion on alternative models and solution based approaches.

Yours sincerely

Melanie Laws
Chief Executive