Surrey County Council detailed response to the 2017/18 Local Government Finance Settlement Technical Consultation Paper

Preamble

Surrey County Council welcomes the opportunity to respond to the technical consultation on the 2017/18 Local Government Finance Settlement. This contrasts with the 2016/17 settlement which brought in significant changes to the distribution of Revenue Support Grant (RSG) through the new and previously unannounced use of core spending power. Basing the distribution method on core spending power unfairly penalises councils that have traditionally received lower levels of government grant funding and are forced to raise a higher proportion of their funding through council tax. For Surrey County Council this introduced a series of shock reductions in RSG. Even though the council received partial mitigation through the Transition Grant, Surrey County Council's funding and financial sustainability is in a serious position.

In responding to this consultation, the council has focused its response on questions most relevant to attaining a more sustainable financial position and a fairer deal for Surrey's residents and businesses. Surrey's residents and businesses play an important role in driving the wider UK economy and the council looks for fair funding to enable the county to continue to drive economic growth.

Please see the council's responses to the specific consultation questions below. The council has grouped its response to questions 4 to 7.

Question 1: What other, additional grants, beyond those set out in para 2.2.2, could the Government consider including in the multi-year offer?

The consultation paper confirms the Government's commitment to the multi-year settlement and clarifies what that offer includes. The Secretary of State's letter of 10 March 2016 says *'…the relevant lines that are included in the multi-year settlement offer, where appropriate, are:*

- *Revenue Support Grant;*
- *Transitional Grant; and*
- *Rural Services Delivery Grant allocations.'*

Furthermore the LGA/CIPFA guidance the consultation paper refers to says
'… guaranteed minimum grant envelope, paid to councils for a 4-year period from April 2016 covering Revenue Support Grant, transitional funding and Rural Services Delivery Grant. ...'

In principle the council generally favours improving councils' certainty over funding and suggests the Government could extend the offer to also include those grants published for 4 years at the time of the 2016/17 settlement such as: Homelessness Prevention, Learning Disability and Health Reform, Care Act Funding, Local Welfare Provision, Early Intervention, Lead Local Flood Authorities and Sustainable Drainage Systems, public health grant, PFI grants (in accordance with their agreed terms and conditions), Education Services Grant and many other grants.

Giving certainty of grants (providing they are adequately funded) will ensure continuity of services and would allow local authorities to take a more calculated and decisive approach towards delivering services. Ultimately this benefits service users and tax payers.

In extending the range of grants brought within the multi year offer, the Government should consider giving simple certainty through the absolute minimum value of the grant promised and also, for other grants supporting more variable responsibilities, giving relative certainty by matching grants to activity levels taking into account the relative needs of local populations and the local cost of delivering services through a unit cost basis. The council envisages such an approach would take account of significant local differences in the cost to serve and could also facilitate rebalancing of funding, such as for the public health grant where each council's starting allocation was based mainly on current spending levels rather than the population's needs.

The council notes the Government will decide which funding to include in an extended multi year settlement offer after the deadline for accepting the original offer has passed. These subsequent changes could make a material difference to the impact of the offer on councils and as such, local authorities should be able to reconsider the offer at the appropriate time.

Question 2: Do you agree with the proposed methodology for allocating funding for the improved Better Care Fund as outlined in paragraph 2.3.4?

No.

The council strongly opposes the current approach to allocating funding through the improved Better Care Fund (iBCF) as it unfairly penalises councils who are forced to raise a greater proportion of their income from local residents through the adult social care precept. Past funding formulas have relied too much on measures of deprivation and not enough on more relevant indicators, including the cost to serve. The 2016/17 settlement adds an over-emphasis on council tax (including the adult social care precept) as a resource for distributing funding. Essentially the outcome of these factors is areas that have consequently had to rely on higher levels of council tax to fund their services are subsidising areas that have enjoyed being able to rely on a higher level of other government funding to support their services.

Shire areas currently levy a much higher rate of council tax than other parts of the country and Surrey has one of the highest rates within this group. There are several reasons for this pattern, including repeated "resource equalisation" exercises that have frequently penalised shire areas placing greater pressure on council tax bills. To give this factor such high prominence within the iBCF allocation exacerbates this issue for council tax payers. For example, average council tax per head in Surrey is £597, which is just over 40% higher than the averages for England and for London. However it is 76% higher than the average for metropolitan areas. This factor markedly and inappropriately skews the distribution from one purportedly based on need to bring in other factors, including deprivation, many of which are not relevant.

The proposed allocation of the iBCF illustrates this well. The fact the 2016/17 Local Government Settlement allocates only £1.5m in total to Surrey County Council in 2019/20 (a mere 0.1% of the £1.5bn national total) makes a mockery of Surrey County Council's placing

at eighth out of 152 social care authorities in terms of relative need allocation and a 1/60th share of the national relative needs assessment (which would equate to £25m share of the £1.5bn iBCF total).

Surrey County Council is pleased the Government is recognising the importance of finding additional funding for adult social care. Previously it has implied it will directly reallocate money saved from reductions in new homes bonus (NHB) payments to fund the iBCF. However, the NHB calculator shows a significant difference between the savings being made from NHB and the funding being added to iBCF. Nationally, the difference between the current NHB and the proposed five year payment is approximately £230m, with only £105m to be distributed to local authorities. More specifically, Surrey County Council anticipates a £2.3m reduction in NHB in 2018/19 and another £0.2m in 2019/20. This loss exceeds the disproportionately small and far from adequate gain the council is due to receive from the iBCF in 2019/20, meaning the Government's iBCF funding proposals place an increased burden on Surrey's council tax payers, fail to close the cost and demand pressure funding gap and redirect £1m of that money outside of the county.

The council contends that fair funding allocations to support future responsibilities cannot be based upon past spend or activity. An area that fares relatively well from the funding system will be able to choose to do more and spend more than an area which does not. The council strongly urges the Department to gather evidence and understand the growing and developing patterns and location specific costs of demand pressures and ensure these are funded adequately rather than relying on regression analysis and the legacy of previous resource allocation decisions to lock in past funding.

In 2016/17 Surrey County Council faces £35m demand and cost pressures in the provision of adults social care. These relate to rising demand for ASC services and the increased cost of social care provision driven significantly by legislative changes such as the introduction of the National Living Wage. These pressures are set to rise in future years and the £12m the council raises from the 2% ASC precept falls substantially short of meeting them. For example, the 2% ASC precept only meets half of the £24m ASC demand pressure the council faces this year. It is critical therefore that Surrey County Council receives a fairer allocation of the iBCF to support the delivery of social care services and the local plans it is developing with health partners to improve the whole system and help reduce pressures on the NHS. When taken on top of reductions to RSG and it to reduce social care provision in areas which may impact on the success of integration plans with the NHS.

Analysis undertaken in 2015/16 into £31m of preventative social care services supported by ASC protection funding from the council's Better Care Fund, showed these services delivered £96m of benefits to the whole health and social care system, particularly the NHS. Investments in services such as reablement, support for carers of people with social care needs, community equipment, grants to the voluntary sector and the establishment of social care teams at hospital sites are essential to manage pressures effectively in the health system as well as in social care. However, without improved funding levels the council will be forced to reduce investment on prevention, as it has to prioritise spending on direct care packages to meet the growing number of people with assessed eligible social care needs to meet its statutory duties. This will inevitably lead to increased cost pressures in the NHS – at the rate of more than £3 for every £1 of disinvestment in social care, based on the analysis undertaken for the council's Better Care Fund.

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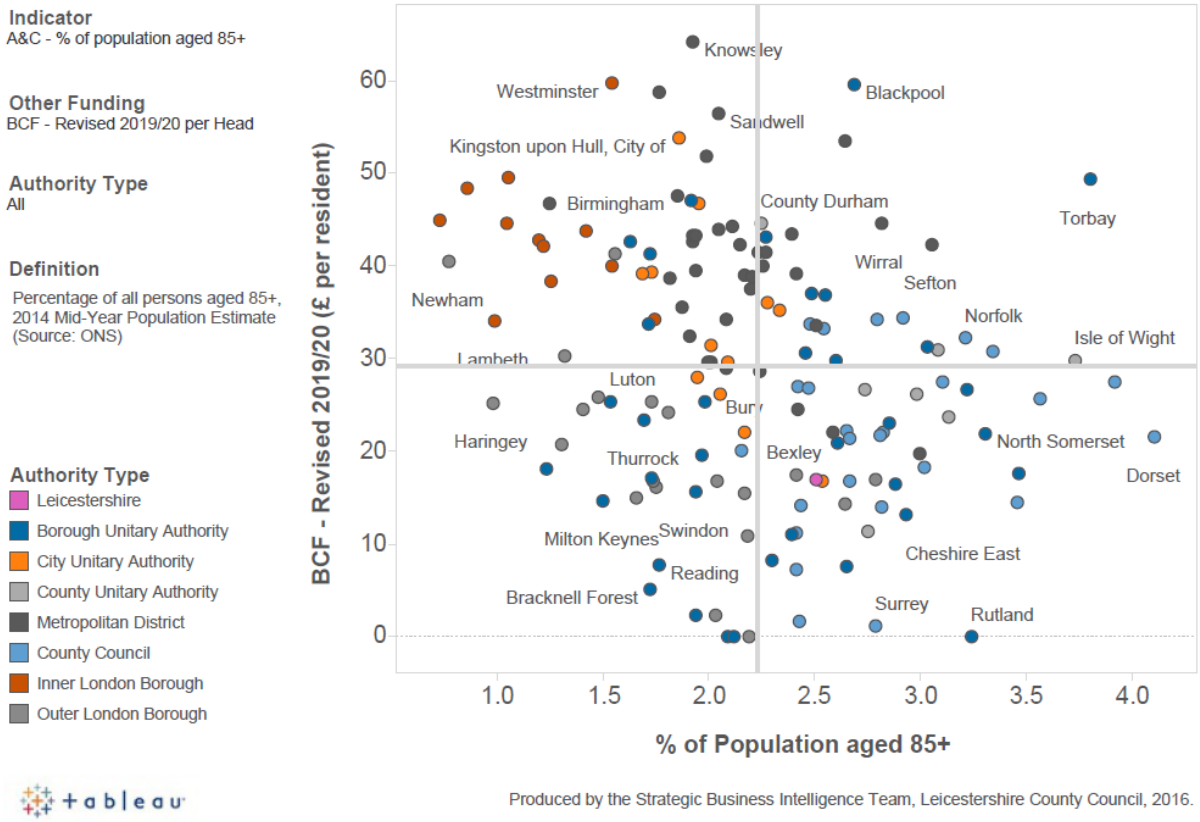
One of the shortcomings of the allocation method used for the iBCF in respect of supporting integration with the NHS to improve the health and social care system as a whole is it has no correlation with one of the key drivers of demand on this system. The number of people over 85 is a key driver affecting hospital admissions and speed of discharges. Yet there is no clear correlation in the allocation of iBCF funding. Analysis by Leicestershire County Council illustrated in the graph below, shows Surrey has one of the highest proportions of its population over 85 coupled with the fifth lowest iBCF allocation per resident. Conversely, a significant proportion of city unitary, London borough and metropolitan authorities have lower proportions of people aged over 85 and high levels of funding.



Previous funding formulas have relied too much on measures of deprivation and not enough on more relevant health indicators. In particular, for adults with learning disabilities, the council believes deprivation is not a factor as these disabilities are as likely to occur in all families not only deprived ones. Many are surprised to find the council in fact spends the highest proportion of the adult social care budget on adults with learning disabilities (and adults with learning disabilities are in the social care system much longer than older people). It is therefore imperative to get the funding distribution right for this significant (and often overlooked) client group.

By including the assumption that each social care authority will raise the full amount of its ASC precept in the overall iBCF distribution formula, the Government essentially forces each of those local authorities to use the ASC precept to the full, or forego the equivalent amount of funding, giving with one hand and taking with the other. While the council's current position is that the 2% limit on the ASC precept only covers half of the growth in

demographic demand for ASC services in Surrey[1], this may not be the case in all areas and the Government's imposition of this council tax increase through the iBCF funding allocation is wrong and highlights the flawed basis of the overall iBCF distribution formula.

The council urges the Government to reconsider its approach to distributing the iBCF to:

- allocate the Government's part to the iBCF funding (£1.5bn in 2019/20) using the relative needs allocation formula only; and
- allow social care authorities to decide the extent to which they intend to use the social care precept without the prospect of effectively losing funding as assumed by the Government.

Furthermore, the council urges the Government to link the threshold for increases in ASC precept to demonstrable increases in relevant demographic growth. In this way, the ASC precept will become funding raised locally to provide adult social care services locally.

Question 3: Do you agree with the council tax referendum principles for 2017-18 proposed in paragraphs 3.2.1 to 3.2.2 for principal local authorities?

The council welcomes the introduction and continuation of the ASC precept as a means of supporting the funding of a growing population of people requiring care. The current 2% ASC precept has helped mitigate the council's immediate funding crisis, but it already falls well short of the gap it is intended to fill. Future years will see it fall even further behind genuine need. Were the Government to endorse the use of this precept to cover the gap, Surrey would need to raise it by 6% next year, 4% in 2018/19 and a further 3% in 2019/20. The council would like to see the following changes to this important source of funding for some of the most vulnerable people within our communities.

- Break the link between ASC precept and iBCF funding allocation that effectively imposes a 2% increase by all social care authorities which runs contrary to the principles of local choice, discretion and democratic accountability.
- Extend the limit of the ASC precept to cover demonstrable increases in relevant demographic growth and factors affecting the local market for social care services (for Surrey these are currently 6% in 2017/18, 4% in 2018/19 and 3% in 2019/20).
- Consider making the ASC precept available to shire district councils that provide ASC services through their housing functions. Otherwise shire areas are disadvantaged in the amount they can raise through ASC precept compared to unitary and metropolitan areas.

[1] The 2016/17 increase in cost of providing Adult Social Care services in Surrey is £24m, the ASC precept raises £12m in 2016/17 in Surrey.

Question 4: Do you agree that referendum principles should be extended to larger, higher-spending town and parish councils in 2017/18 as set out in paragraphs 3.3.3 to 3.3.4?

Question 5: Do you agree with the proposed approach to take account of the transfer of responsibilities to town and parish councils as outlined in paragraph 3.3.5?

Question 6: Do you have any comments on the suggestion that referendum principles may be extended to all local precepting authorities as set out in paragraph 3.3.6? If so what level of principle should be set?

Question 7: Do you have views on the practical implications of a possible extension of referendum principles to all local precepting authorities as set out in paragraph 3.3.7?

The council opposes council tax referendums generally. Currently local authorities are able to vary the council tax precept they set locally. This is done openly in each council by elected members who are subject to re-election every four years. The council requests the referendum limit, which dilutes this freedom and responsibility, be removed and all local authorities are enabled to levy the council tax rate they need to deliver services to their residents and businesses.

Council tax referendums are disproportionate in terms of cost and accountability for such a highly localised level of government. Town and parish councils should have the flexibility not only to take on a responsibility from another tier of government without being unduly constrained by council tax referendum principles as the Government proposes, but also to have the same freedom from undue constraint to choose to enhance or extend a service provision to match the specific local needs of their residents. As local authorities' funding reduces they will increasingly focus on just meeting statutory duties. Therefore many local communities will find the things they want to make their areas attractive and pleasant places to live will no longer be affordable. Allowing town and parish councils to raise income through the precept is one way to minimise the impact of this funding reduction and enable local choice and priorities.

Question 8: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.4.1 to 3.4.8?

The Society of County Treasurers (SCT) has been asking the Government for a long time to clarify the impact of the revaluations on the business rates retention scheme. The council understands the department had intended to split changes to rateable value into those resulting from growth and those resulting from valuations. The consultation paper suggests this is not possible and proposes to use, as a proxy, gross rateable value before and after the revaluation. This will need to be done and reconciled over three years.

The council believes this method fails to recognise local authorities' efforts in building and facilitating the infrastructure, capacity and wellbeing locally that make their areas attractive to

businesses and so increase rateable values. This failure further weakens the growth incentive by not giving and maintaining proper and due reward for local authorities' work on economic growth. For example, placemaking for economic growth by improving traffic flows and transport links to a business park will make it more attractive and so increase rateable values. This is an investment by the local authority which it would not want to lose the due reward through neutralisation of the revaluation funding gain by way of adjustments to tariffs and top ups.

In addition the proposed proxy will not take account of reliefs. Shire areas currently see more of their gross rates lost through reliefs than other areas (except metropolitan districts who lose the same proportion on average). The value of many of these reliefs are likely to change as a result of the revaluation and the SCT has not yet received assurance the impact will be felt fairly across all areas. As such the council welcomes the decision to keep this under review and would welcome further discussion with the department on this matter, either directly or through its membership of SCT.

Question 9: Do you agree that the methodology, as outlined in paragraphs 3.5.5 to 3.5.13, for calculating changes to the local share of business rates and tariff and top up payments is correct and does not adversely affect non-pilot areas?

Surrey County Council believes this national scheme for piloting business rates retention, should work to treat all areas equally. The proposed pilot areas only include city areas with Mayoral Combined Authorities that could strike bespoke devolution deals giving them responsibilities beyond those currently envisaged to be available to all areas, irrespective of their framework for democratic accountability.

Surrey County Council would have liked to have seen a greater variety of pilot authorities. The council believes it would be in the interest of all authorities to have a more comprehensive pilot scheme to help understand and test the system from the perspectives of smaller or less urban authorities as well as larger and more urban authorities. A more diverse pilot authority base should provide greater assurance different types of authority will not lose out because of the changes to the system.

The council believes only responsibilities intended for 100% business rates retention should affect tariffs, top ups and local share ultimately and in the pilot scheme. Other grants devolved to areas as part of specific devolution deals are outside the 100% business rates retention system and the Government should fund them from its other resources.

Question 10: Are you contemplating a voluntary transfer of funding between the Combined Authority and constituent authorities?

Surrey County Council has submitted and is discussing a devolution deal as part of the proposed 3SC (Three Southern Counties) combined authority. As part of this prospective arrangement, the council is considering transfers of funding most consistent with 3SC's goals.

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Question 11: Do you have any comments on the impact of the proposals for the 2017-18 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Surrey County Council has faced more than a decade of cuts in funding thanks to successive funding formulas which failed to recognise the high cost of providing services in the county and also failed to recognise the demographic realities placing increasing strain on the council's finances.

Through an enormous efficiency savings programme, which is on course by the end of the decade to make ongoing savings of around £700m from the council's £1.7bn budget, the council has managed to withstand the impact of these changes. It is hard to see how that can continue under the settlement proposals set out in the consultation paper.

The council's most intense pressures impinge on Adult Social Care services and Children's services. Surrey County Council has achieved savings of £190m from Adult Social Care in the past six years and plans to make a further £200m within the next five years. However, the cost of providing Adult Social Care services in the county is increasing by more than £35m every year. The county council is facing significant market pressures on the prices charged by providers and it is also contending with a rapidly rising elderly population which will increase in number by 20,000 by 2020. By the middle of the next decade 56% of Surrey's population will be aged over 65 and half of these will have chronic conditions. With similar cost pressures and a growing school age population the same factors mean Surrey faces a £24m annual gap in Special Educational Needs and Disability (SEND) funding by 2020.

The current situation has arisen out of a local government funding model which has focused overwhelmingly on deprivation and completely underrepresented regional variations relating to the cost of providing services and demographic changes. The move to "core spending power" as a consideration has further increased the pressure, because where government gives with one hand (for example the Adult Social Care precept) it takes with the other (with a reduction in grant, based on core spending power, similar in size to the figure a council can raise by the precept). The outcome has left Surrey with the promise of just £1.5m from the entire £1.5bn improved Better Care Fund. If the county's share according to national relative need were used for the calculation, Surrey would receive £25m.

After more than a decade of funding cuts leading to these unmitigated pressures, the council can no longer avoid further cuts affecting services to vulnerable adults and children.