SOCIETY OF COUNTY TREASURERS
President
Lorna Baxter

Telephone: 07977 401086
Email: TechnicalSupportTeam@somerset.gov.uk

SCT Technical Support Team
County Hall PP B3N4
Taunton
Somerset
TA1 4DY

The Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

30 September 2021

Spending Review 2021 – Society of County Treasurers' Submission

Dear HM Treasury Team,

The Society of County Treasurers (SCT) is comprised of all Chief Financial Officers from the 24 shire counties in English local government. Following successive reorganisations of local government, the SCT also includes 16 shire unitary authorities that have similar interests in local government issues. Together, these 40 authorities represent 47% of the population of England and provide services across 87% of its land area.

This letter represents the submission from the SCT to the Treasury's Spending Review 2021. Please also refer to submissions from our individual member authorities as well as that of the County Councils Network. Further detail follows; however, our main points are summarised below.

- **Recent Government announcements on social care indicate that ministers have seriously misunderstood where the current crisis in social care lies. Labelled as being the "fix" for social care; the plan for Health and Social Care instead targets individual's personal and household finances rather than solving the social care crisis.**

- **Continuing to ignore the current burdens on adult social care will have a crushing effect on social care and also broader services. The situation is critical, and the sector cannot wait for long-promised white papers – more funding is needed now.**

- **The indicated funding for the sector (worth just 15% of the levy) will fall well short of the additional costs – further risking the sustainability of the whole sector.**

- **Local authorities are now in the difficult position of delivering a message to their residents that council tax still needs to increase, as does the ASC levy and there may also be cuts to other services – all to pay for social care, which the Government have just announced they've "fixed".**

- **Special Educations Needs overspends continue to rise – driven by a huge increase in Education, Health and Care Plans (46% rise in SCT areas over the past three years). The**

Treasury must invest adequate funding in SEN provision or further risk the sustainability of local authorities as these deficits become liabilities.

- **SCT authorities have been at the forefront of the nation's response to Covid-19. Each authority has redeployed staff, supported local markets and economies, and helped ensure the safety of its residents. SCT authorities have a proven track record delivering 'levelling up' at county scale and in local places; continuing to deliver value for money services even in the middle of a global pandemic. Now focused on recovery and future sustainability it is vital that local government is central to the Government's plans in Spending Review 2021.**

Whilst the Society has chosen to focus this submission on our top current pressures, our members are keen to stress that these issues do not represent the entirety of the sector's problems. Demand for Children's social care is escalating at an alarming rate, council tax continues to be an outdated and regressive tax which, when combined with current funding disparities, leads to an unfair patchwork of fees, charges, and services across the country. The sector is long overdue a funding overhaul and the SCT have long been calling for an end to business rates retention – primarily because there is no evidential link between economic growth and the need for investment in local services.

Social Care
The HCLG select committee recently highlighted that "*the failure to properly fund children's and adult social care…is the single biggest threat facing local government financial resilience*" and the County Councils Network's future cost projections for the period 2020-21 to 2029-30 show that national total costs will rise by £6.7bn (38%), just to keep services operating as they are presently, without any increase the level or quality of services. The Society was, therefore, disappointed that the announcement on 7 September failed to address the current crisis in social care – that of rising demand, an insufficient supply of appropriate care and increasing labour shortages.

The Plan for Health and Social Care addressed individual concerns about inheritance and the fairness of personal contributions towards care costs but is likely to result in additional costs for local authorities which far exceed their share of the new levy. Following examination of the proposals, the SCT is very concerned that funding will be dwarfed by additional costs and unintended consequences, leaving the sector more vulnerable and in a worse financial position than it currently finds itself.

Whilst the Society is cautiously optimistic to see confirmation that "*the Government intends to compensate … public sector employers in England at the Spending Review for the increased cost of the Levy"*, this is not going to be the only additional burden as a result of these measures, not to mention the inflationary costs for councils and providers. The Society calls on Government to have an immediate and frank discussion with the sector about the sufficiency, not only of funding, but also of its workforce and capacity given the magnitude of their ambition.

Clearly, the introduction of a care cap will mean that local authorities will have to fund a greater proportion of care costs that are currently paid by self-funders. However, the cap will also mean additional assessments – both against the cap and increased means testing, representing a significant challenge to local authorities who are still in the midst of managing discharge arrangements with hospitals and trying to catch up on assessments following the 4-week free care period. Again, there is the labour/workforce challenge as to whether additional social care assessors can be recruited and, if they can, whether this new financial burden to local authorities is sufficiently recognised. The Government will be aware of these costs as they were investigated in 2015. However, accurately estimating these costs is fraught with difficulty, given that the numbers and behaviour of self-funders is unknown. The Government will need to work closely with the sector to understand and fully fund these new burdens if they wish to successfully deliver on the promises made in return for the levy.

It's a well-known, albeit uncomfortable, fact that self-funders subsidise the care fees that LAs pay. With private fees more than 40% higher than publicly paid fees for the same level of amenity, the care home fee gap for counties alone was £761m in 2020-21. The Government's plan includes measures for self-funders to ask their local authority to arrange their care for them – in order to access better value care. We were told that "*private payers won't pay more than LA supported residents in care homes*". Not only will this place an additional administrative burden on councils but, rightly or wrongly, the fees that councils pay for care *will* rise following a reduction in the subsidy paid by self-funders. The prevalence of self-funders in shire areas means that our members are likely to be more exposed to this risk.

The country is facing several significant labour shortages and the care sector has found itself at the sharp edge of this challenge for many years now. As other sectors such as hospitality and retail increase rates of pay it becomes clearer that care staff recruitment will become harder still. Unless national attention is given to the care workforce, the public could find themselves with greater certainty about how *much* they will have to pay but find that the care market has become much more restricted.

Local authorities await further information from Government regarding the allocations of the additional funding for social care – however, creating a funding formula which captures the interaction of the care cap, the capital limits, local financial means testing, and care provider markets is going to be highly complex. The risk of creating allocations which do not adequately reflect costs is high and this concerns SCT members considerably.

The Government have been clear that they expect additional costs caused by demographic changes and increased unit costs to be met from council tax, the social care precept and "*long term efficiencies*". Further efficiencies are unrealistic given the challenges during the previous years of austerity compounded by a market that was becoming distressed before the pandemic.

Recent discussions with care providers have indicated that inflation, energy price rises, staffing issues and the long-term impact of covid will mean that care fees may rise 10-15%; an amount that simply cannot be met from council tax. Council tax does not solely exist to fund social care and councils have other statutory services which require funding and investment. The Government must also be mindful of the fact that varied tax bases result in varied incomes.

The Government were content for it to appear that the new policy announcement means that social care is now "fixed". However, local authorities will now need to increase council tax, the ASC precept and even reduce other services to pay for a pressure which the public believes to be solved. We feel the Government needs to play its part in managing expectations of taxpayers.

Whilst recent headlines have been pre-occupied with adults' social care; in some authorities, children's social care is an even more pressing issue. Some of our members have seen an increase in the number of children receiving care of more than 50% since 2015. The resulting costs are not simply limited to social care and are often also felt in education and home to school transport budgets – areas which were already under pressure.

The position of both adults and children's social care is untenable without reform and increased government grant. Linked to this, it is vital that local authorities' public health work is supported; local government has a vital role to play in both pandemic response and increased preventative work will reduce demand pressure on social care budgets.

Quantum & Certainty

As a matter of urgency, the overall quantum of local government funding must be addressed. Prior to Covid-19 local authorities were already facing a significant funding gap following a decade of austerity and increased demand for services. In SCT authority areas, the increasingly aging population and historic funding positions have exacerbated this further. In addition, the Treasury must consider the long-term impact of Covid-19, particularly on adults (including working age adults) and children's social care which are seeing significantly increases in the number of referrals.

The SCT welcomes the previous intention of the [now renamed] Ministry of Housing, Communities and Local Government, via the review of the relative needs funding formula, to recognise and attempt to address the difficulties of delivering services across areas with sparsely populated geographies. It is imperative that these proposals deliver the change they promise or else risk the inability to deliver statutory services. It now appears likely, given the desire for stability, that the implementation of these changes will again be delayed, leaving rural areas underfunded for another period of years.

One way to increase the quantum of local government funding quickly and simply would be to increase 50% Business Rates Retention (BRR) to 75% BRR, but without imposing commensurate cuts to grant funding. This was recommended by the Housing, Communities and Local Government Commons Select Committee in its July 2021 report on Local Authority Financial Sustainability and the S114 Regime. However, it would be vital that such increased local revenue be suitably redistributed according to evidenced need.

As referenced above, the SCT is on record as being sceptical of the appropriateness of funding local services through retained business rates, primarily due to its complexity and the absence of any link between needs and funding. However, this move to 75% rates retention would offer a way in which the quantum of local government funding can be increased quickly ahead of fundamental reform.

In June the Public Accounts Committee recommended that: *"Local government finance is reconsidered from first principles…and [that] a stable funding environment, ideally based on a multi-year settlement, is established as a bridging mechanism while more fundamental long-term reforms are designed".* Recent years have seen local government deal with huge levels of uncertainty – single year settlements, late announcements, deferral of funding reforms and, of course, the pandemic.

We therefore welcome the announcement of a multi-year Spending Review for 2022-23 to 2024-25 and hope that this will translate into a three-year local government finance settlement, delivered well before the festive period. Local authorities should never again face the level of uncertainty that is currently present. SCT calls on the Treasury to instigate rolling multi-year settlements and a longer-term commitment of real terms funding protection for local authorities.

High Needs DSG Deficits

The issue of High Needs deficits has been ducked for too long and now needs urgent resolution. Recent work conducted by the Society established that cumulative High Needs DSG Deficits for SCT members totalled approximately £156m in March 2019 but had risen 480% to £750m by March 2021 and are now forecast to reach £1.3bn by March 2023. No solution has yet been brought forward by the DfE and the SCT asks HM Treasury colleagues to support the Department in reaching a suitable conclusion.

Recent moves by the Department to try and address rising deficits including additional funding are not sufficient to keep pace with the rising demand. Whilst small funding uplifts will not cover these ever-increasing deficits, it is important that Government provides clarity regarding funding uplifts for the full SR period as a minimum. At the moment, the lack of clarity beyond 2022-23 is contributing to an even less stable environment at a time where the need for certainty is vital.

Over the past three years, SCT members have seen a 46% increase in the number of Education and Health Care Plans – far more than the increase in grant funding. The magnitude of the deficits, if not responsibly address by the Government, will risk the viability of some local authorities once the current period of grace (where deficits can sit without provision on local authority accounts) ends.

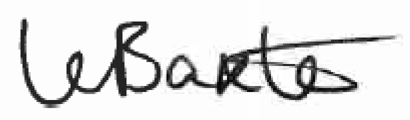
Summary

Covid has only exacerbated the fragility of the finances of local government, particularly those with social care responsibilities. Post-pandemic the residential care sector is facing staff shortages and increased insurance costs, whilst the home care sector is seeing similar staffing issues that are putting up costs and in some cases failure to deliver to the ever-increasing demand. The impact on Children's Services is even more acute. More children are presenting for the authorities to care for and the distortion of the market is increasing costs at an alarming rate. Together with general increasing demand, costs, and expectations any belief that increases in council tax and adult social care precept are keeping pace is wrong, no realistic rise in council tax will keep up with this increased demand.

Local government has a vital role to play in the nation's response to and economic recovery from Covid-19 however it can only fulfil this role with a fair and clear settlement. The Government must provide increased funding to address funding pressures which existed pre-covid as well as the new burdens resulting from the Health and Social Care Plan. The 3-year spending review must also be translated into multi-year funding settlements, offering the sector certainty and an ability to plan effectively. Fundamental social care reform remains needed as does a solution to the current and increasing High Needs deficits.

Government colleagues are asked to contact the SCT if they wish to seek clarification on any of the issues raised above.

Yours sincerely



Lorna Baxter
President
Society of County Treasurers

Annex – Other Issues Facing Local Government

Whilst our submission above has focused on the most urgent pressures facing local government, the Society would also like to remind government colleagues of the following issues:

Environment and Net Zero – To fulfil our pledges to reduce carbon, local authorities need to be able to invest in sustainable, green transport such as cycle routes and buses as well as the charging points required to enable the expansion of electric vehicles.

Levelling Up – Business in many rural areas need access to faster broadband to compete and grow. Britain's road network needs investment to fix the estimated one million potholes (the Asphalt Industry Alliance estimates that an £8bn investment would achieve this) and then ongoing further investment to ensure the road network can stay well maintained. The ONS's Country and Regional Public Sector Finances Supplementary Tables show that transport investment in London is more than double the per capita investment outside the capital, a disparity that has been seen throughout the last two decades. It's time that the transport infrastructure afforded to London be also afforded to the rest of the country.

Infrastructure and Growth – Recent rewards for growth, such as the New Homes Bonus, have tended to reward those providing lower tier services and ignored the infrastructure investment needed in, for example, roads and schools. The government should also reflect the escalating costs of costs when investing in local infrastructure.

Devolution – Any and all devolution work should be carried out in a manner that benefits residents in rural and urban areas alike and the SCT would support a significant devolution agenda which includes an overhaul of the current system of local taxation.

Fair Funding Review – The government made significant progress towards fairer funding before Covid-19, including a mechanism to reflect the additional costs of delivering services in rural areas. The government should finish this work ASAP and set out a timeline in the meantime; it should also consider a review of capital funding for local government and schools.

Council Tax – A tax based on the valuation of properties thirty years ago is not right. Furthermore, the assumption of local council tax growth in percentage terms must stop immediately and ideally referendum limits should no longer exist; local government should govern council tax levels and council tax support. Failing this, limits must be set out as early as possible to aid local authorities' financial planning. Additional bands to charge more from those most able to pay should be implemented, to mitigate (though not eliminate) the regressive nature of the tax.

Business Rates – Regarding business rates, the SCT is glad to see the first steps of the fundamental review carried out, however it is disappointed at the limited scope of a "fundamental" review. Ultimately the business rates retention system is unfit for purpose and goes entirely against the government's "levelling up" agenda (rates are not even remotely linked to need), and as such it should be replaced.

Those authorities who are part of the 100% BR pilot should be given notification that their pilot status will be extended until the BR review replaces this status with a new scheme. Without some certainty these authorities are unable to plan services effectively.

Local Government Reorganisation – The SCT welcomes the government's decision regarding unitarisation in North Yorkshire and Somerset, although it regrets that a single unitary approach (and its associated savings) was not determined for Cumbria. Wherever there is local appetite for reorganisation this should be implemented with the required support from central government.