HM Treasury 2020 Comprehensive Spending Review (CSR)

Submission from the Chartered Institute of Public Finance and Accountancy (CIPFA)

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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Executive summary

The 2020 Comprehensive Spending Review (CSR) is being conducted in circumstances that are unique to the current generation of taxpayers. Debates around transparency and scrutiny have influenced attitudes about public finances as expectations outstrip income. Moreover, future generations will be directly affected by the decisions which are due to be taken and which will be influenced by the continuing effects from the global pandemic. It is for these reasons that CIPFA thinks that, more than ever, the immediate CSR will have to consider a wider range of issues. These issues will include a more holistic range of matters than would ordinarily be considered. This submission sets out those matters but can de distilled into the following:

- The shorter-term requirements that will be necessary to enable public services to be adequately funded during the forthcoming spending review period. This will necessarily be informed by the strain on public services which has arisen as a result of the response to the global pandemic.
- A clear progression towards implementation of longer-term transformational change that ensures that the UK fiscal system and the mechanism to fund public services is fit for purpose going forward. To achieve this CIPFA considers that long-term financial planning, multi-year financial settlements, inter-generational debt and the impact upon the environment are some of the wider issues that will have to be factored into government decisions.

In this submission CIPFA will explore these matters in further detail, which will also include:

- The need for a more holistic framework for financial proposals that support efficient and effective place-based outcomes. Place-based funding allows for spending decisions to reflect local circumstances, maximising integration and alignment of public services, while improving outcomes and value.
- The extent to which deficit and debt reduction will require a more rigorous target but set over a longer time horizon.
- The extent to which tensions within the existing social care system have been exposed as a result of the response to the global pandemic. Progress towards long-term financial sustainability will essentially require radical adjustment to levels of funding or adjusting, and then managing, service level expectations.
- Fair funding of local government to ensure that a settlement is received to enable local sustainable decision making. Stated simply, progression towards multi-year settlements is essential.

CIPFA recognises that government will be considering a range of submissions, many of which will be seeking additional funding. It is likely that demand for public funds will outstrip supply in the short term. That is the nature of public finance. CIPFA would reiterate and further emphasise that the balance between short-term funding decisions and longer-term change must be carefully struck.

Other recommendations include:

- Articulate a clear narrative of why specific projects or priorities will reduce inequalities across regions as part of ‘levelling up’ with associated costs and benefits.

- Taking an outcomes approach to financial management and making settlements that tie spending to what is being achieved for citizens.
- Review options around local taxation that allow businesses and communities to work with elected representatives to create greater alignment between tax and spending decisions, recognising the need to identify additional income sources for local authorities.
- Development of a more enabling legislative framework for health and social care integration
- A system-wide rethink on preventative spend to enable it to be considered as a true investment.
- Sufficient funding be provided to cover additional costs of social care and wider council services as a result of COVID-19, and to ensure financial sustainability thereafter.
- Reform of social care funding that is strategically informed, financially sustainable, equitable and underpinned by a clear understanding of the challenges of funding social care. We propose a five-point plan to guide such reform.

Economic assessment

The confluence of COVID-19 and Brexit in 2020 has created unprecedented uncertainty for the UK that will continue to endure for years to come. Through strong leadership and a clear vision, government can balance the immediate priorities of economic recovery and Britain's future trading relationships with the longer-term realities of financing public spending.

Funding a strategy for the road ahead should be premised on a clarity of goals. What kind of country does the UK aspire to become and what would be the milestones upon which to measure that success? The United Nation's Sustainable Development Goals is one example of long-term goals, forming an ambitious blueprint but requiring new and innovative funding mechanisms beyond a traditional spending review.

This Spending Review cannot simply be an accounting exercise where money is apportioned to pet projects or the loudest voice. Spending plans should be evidence-based and open to greater scrutiny from both Parliament and the public to embed accountability in outcomes and performance. The need for an outcomes-based approach to financial management is essential to provide a longer-term view and one that provides the public with a clear understanding of what has been achieved by public spending.

After a decade of austerity, the importance of value for money should encourage government to develop a more holistic framework that extends beyond departmental planning. At the very least, incentives should be put in place for departments to submit joint proposals that harness synergies to achieve the best possible results from spending. Public service providers have long recognised the potential of harnessing their collective resources to deliver better results for the people and places they serve. CIPFA's research *Aligning Local Public Services* has identified the contribution that can be made when a wider view of place is taken[1]. Using financial management principles to underpin this approach, public services can be seen to deliver economically efficiently and effectively.

With improved digital connectivity this opportunity affords even greater consideration. This advance in digital delivery may have been driven by necessity but provides significant future possibilities.

Committing to a new set of fiscal rules during one of the UK's deepest recessions in living memory may not seem sensible given the short shelf-life of previous frameworks during less trying times, but value can be found in the exercise of discipline and setting reasonable expectations. Public sector net borrowing is set to total 19% of GDP this year and still nearly 5% in 2024/25 based on recent OBR estimates, so the government must decide how it will square today's priorities with those of a highly uncertain future. The profile of low borrowing costs cannot be assumed indefinitely, and fiscal headroom will be needed to respond to the next crisis, whenever that may be. To return the debt-to-GDP ratio to 75% by 2070, fiscal policy would need to be tightened by 2.9% of GDP for each of the next five decades.

Targeted policy support remains critical to ensuring a rapid economic recovery to avoid permanent scarring to the economy. A deterioration in the economy's longer-term rate of potential growth would jeopardise the government's ability to raise revenue. The speed, scale and scope of the policy response to COVID, however, may lead to calls for permanently higher levels of public spending. According to the Performance Tracker report published by CIPFA and the Institute for Government, there is a widening gap in the public's perception of the services it would like and the money that is available to fund them. This includes not just local government but encompasses police, criminal

[1] CIPFA, Aligning Local Public Services

justice and education[2]. In response, the Spending Review could adopt explicit targets on reducing the deficit and debt but over a much longer horizon than would traditionally have been the case.

Much has been said about the need to 'level up' across the UK without defining metrics or time horizons. The Spending Review should articulate a clear narrative of why specific projects or priorities will reduce inequalities across regions, alongside the associated costs and benefits. A systems-led approach would consider the intersection of social, economic and even geographic differences to ensure that policies have total outcomes in mind. For example, research from the UK Collaborative Centre for Housing Evidence (CaCHE)[3] suggests that fixing the broken housing market may have less to do with houses and more to do with factors such as employment, education and mobility.

COVID-19 has magnified social and economic disparities and divergences that were long in the making. In the UK, a decade of austerity cut public services so severely that the landscape has been left deeply scarred. Discretionary spending in areas such as housing, planning and transport, not to mention youth centres, parks and libraries, was hardest hit. Even mandatory services in health, social care, criminal justice and schools experienced reductions in quality and scale that will be difficult to reverse. Since 2009, cuts in central government funding have led to English local authorities spending 17% less on public services. The distributional consequences have been remarkable with per capita spending reduced by 31% in the most deprived areas compared to 16% in the least deprived, according to data from the Institute for Fiscal Studies (IFS).[4]

Promoting local ownership and devolved decision making will be paramount if national and international ambitions are to be realised. The Sustainable Development Goals[5] represent an opportunity to restructure economies from the bottom-up using taxation policies to encourage hiring, retraining and capital investments that target innovation, digitisation and green infrastructure. While more targeted stimulus measures that address the pandemic's fallout should continue, governments must put in place stronger mechanisms to insure against a range of future temporary and permanent shocks. This includes allowing for obsolete businesses and jobs to be replaced by higher productivity, knowledge-intensive alternatives.

Strengthening the UK's place in the world will require an honest conversation that aligns our aspirations with the realities of the resources available to us. A periodic review of how spending is conducted across the whole of government should care about what actually took place in the past as well. Most of all, public financial management calls for transparent and robust data that discloses all financing choices affecting revenue, spending and borrowing.[6]

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[2] Institute for Government CIPFA Performance Tracker 2019 https://www.instituteforgovernment.org.uk/our-work/performance-tracker

[3] the UK Collaborative Centre for Housing Evidence (CaCHE) https://housingevidence.ac.uk/systems-thinking-and-housing/

[4] https://www.ifs.org.uk/publications/14977

[5] https://www.un.org/sustainabledevelopment/sustainable-development-goals/

[6] CIPFA *Financial Management Code Guidance Notes* 2019 https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code-guidance-notes

Local government

Effective longer-term planning the role of multiyear settlements

In September 2019, CIPFA published *The Financial Management Code*.[7] The Code, which will be implemented in full of 1 April 2021, specifically requires that local authorities implement medium- to longer-term planning. During consultation and somewhat commendably, local authorities were prepared to accept and support that principle and indeed examples of current practice were provided to CIPFA. A consistent theme which did emerge however was the tension between the need to plan long term and the short-term (annual) nature of government settlements. It is recognised that the application of a longer-term planning horizon allows for improved decision making and more efficient use of resources.

CIPFA was persuaded by the representation made and considers that there is in fact a strong case to be made for settlements to be offered for longer than one financial year.

Increasing funding gap

Local government has faced unprecedented financial challenges in recent years that are likely to persist well into the next decade. Government funding for local authorities has fallen by an estimated 49.1% in real terms from 2010/11 to 2017/18. This equates to a 28.6% real-terms reduction in 'spending power'[8]. Despite this, core services continue to be delivered. Evidence from the Performance Tracker 2019[9] would, however, indicate that quality has declined. But this has placed a greater burden on non-statutory services, where we have seen a decline in funding. CIPFA's Library Survey has highlighted this trend over the last ten years.[10]

Our overall assessment is that a tipping point is in sight. Figures provide by CIPFA identified a funding gap of £1.2bn[11] in July 2020 as a result of COVID-related pressures and this is in addition to existing budgetary pressures. A number of well-run councils will be in the position of being able to deliver little more than the core statutory provisions in order to meet their legal duty to deliver a balanced budget. It is feasible that some may be unable to meet even that.

Work undertaken by CIPFA through its Resilience Index provides clear evidence that pre-COVID funding was insufficient to cover the sector's needs – post-COVID, this funding gap is significantly worse.[12] Indicators used in the Index include 'reserves depletion time', 'level of reserves', 'change of reserves', 'council budget flexibility', and 'council tax to net revenue expenditure'. Our findings showed 10-15% of councils where there were signs of potential risk to their financial stability. This percentage will have increased as authorities have used their reserves in order to fund COVID

[7] CIPFA *The Financial Management Code* https://www.cipfa.org/fmcode
[8] NAO Report https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/
[9] Institute for Government CIPFA Performance Tracker https://www.instituteforgovernment.org.uk/publications/performance-tracker-2019#:~:text=Published%20by%20the%20IfG%20and,prisons%2C%20courts%2C%20and%20schools
[10] CIPFA Library Stats 2020
[11] https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/gap-in-council-funding-remains-after-covid-funding-announcement
[12] CIPFA Resilience Index and CIPFA Performance Tracker https://www.cipfa.org/services/data-to-drive-decisions/financial-resilience-index?crdm=0

activities. Reserves are an important part of the financial resilience of an organisation and we recommend this Spending Review acknowledges this in the settlement.

The funding gap has been exacerbated by the decrease in non-grant income received by authorities. Recognition that some of this income will never be replaced or recovered must be reflected in any settlement as this will impact budget setting. It should be noted that the practicalities of budget setting will be made even more difficult for 2021/22 as a result of the timing of this Spending Review, which does not align with the budget setting process. Budget setting within a local authority will have to be carried out in a vacuum of spending review information and based on scenarios. This Spending Review must keep authorities informed and aware of all decisions at the earliest opportunity.

Fair funding of local government will ensure that a settlement is received to enable local sustainable decision making, reflecting the need for intergenerational equity. Greater focus should be placed on outcomes, with investment criteria that reflects this ambition. In the public services, there is increasingly a complex delivery landscape of public, private and voluntary providers. In any given area, the activities of many organisations will overlap, but may not always join up.

Public service providers have long recognised the potential of harnessing their collective resources to deliver better results for the people and places they serve. What is needed is an integrated approach, across sectors and disciplines, to shape supply and to ensure that communities are resilient in the face of tough times ahead.

An example of this approach can be found in the *Greater Manchester Housing Strategy 2019–2024*:[13]

"We want to work with Government to implement these plans. But we need to acknowledge that the current state of local government finances are precarious and have a direct effect on our ability to deliver the change and impact we, and Government, aspire to achieve. To implement some of these plans we will need to have a different, stronger partnership with Government, and more co-design and control over areas, and a place based approach to housing, health and welfare, if we are to drive forward with our vision for Greater Manchester."

CIPFA considers that greater collaboration is critical to a successful future. Only by coming together and aligning local public services can the wider public sector address the delivery challenges in all our local areas, and truly be greater than the sum of its parts.

CIPFA's publication *Place-Based Asset Management*,[14] and other publications such as the RICS guidance on asset management report on delivering effective public estate management and putting buildings to work, are useful in looking at ways of maximising local property and service delivery. Place-based asset management enables local public service providers (including the third sector) to collaborate on managing their land and buildings as a collective resource across their local area. This may be particularly important as areas look to rationalise their public estates in response to changing working patterns or savings plans.

[13] Subtitled 'Doing Housing Differently'
[14] *Place-Based Asset Management* https://www.cipfa.org/policy-and-guidance/reports/place-based-asset-management-managing-public-sector-property-to-support-aligned-local-public-services

CIPFA therefore considers that this Spending Review should signal a clear direction towards place-based budgeting and commit to appropriately fund the revised landscape.

Greater focus on prevention and outcomes with funding criteria and policy reflecting this ambition

Given the current climate and demands on public services and their budgets, there is a growing consensus that a stronger case needs to be made for preventative interventions, in order to compete with other priorities for valuable resources. The policy agenda should be focused firmly on population health, integration of services and prevention.

The ambition is to change the way that prevention is considered – as a true investment, yielding benefits across place and time – rather than merely to generate savings. Although this will not be realised overnight, robust and consistent evaluation would enable more systematic prioritisation and make any short-termism more transparent, as outlined in our 2019 work with Public Health England.[15] It could enable a picture of overall levels of preventative investment to be constructed and ultimately provide better information upon which decisions can be based.

CIPFA recommends that government take a preventative approach to policy making, and consequently considers the impact and influence that this should have on the Spending Review – not only in terms of improved outcomes and value, but also the potential to reduce future demand for services.

COVID-19 will impact upon public sector budgets for many years to come. It is essential that a new approach is taken. CIPFA's *Delivering Outcomes in the Public Sector*[16] sets out how outcomes-based approaches and longer-term thinking support better understanding of the impact to public services.

The need for an outcomes-based approach to financial management is essential to provide a longer-term view. CIPFA recommends that adopting an outcomes-based approaches will have a lasting impact across the sector – from health and social care, to housing and regeneration.

The role of council tax and business rates

CIPFA does not consider that council tax, business rates and grants are enough to fund local government and funding is intrinsically linked with reorganisation. Reform of council tax and business rates is needed, but a wider conversation must take place, building on the current discussion with government and stakeholders.

Council tax

Last year's CIPFA's annual Council Tax Survey revealed that households in England would result in council tax rises of £64.65, or 3.7%, in 2020/21[17].

[15] CIPFA and Public Health England, Evaluating preventative investments in public health in England, 14 May 2019

[16] *Delivering Outcomes in the Public Sector* https://www.cipfa.org/policy-and-guidance/publications/d/delivering-outcomes-in-the-public-sector

[17] https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/council-tax-in-england-to-rise-by-3-7

Due to the historic nature of council tax policy decisions and the fact that there has been no revaluation since 1991, there is a wide variation in charges across the country. The average band D equivalent in the northeast is now £1,799; in inner London it is £1,194.

While CIPFA appreciates the importance played by council tax within the public sector finance system there is increasing concern on the reliance of this income to fund public services. CIPFA does not believe that the answer lies purely in allowing local authorities tax raising powers, particularly if these relate to a referendum. In a recent international evidence review, the UK Collaborative Centre for Housing Evidence examines three different aspects of housing taxation, in terms of their neutrality, fairness, transparency, efficiency and practicality. Broadening the tax base by reducing fiscal distortions that favour specific groups or forms of assets can offer a longer-term solution to the housing crisis while generating added revenue.[18]

CIPFA encourages central government to review some of the options around this tax and the recent (March 2020) IFS study *Revaluation and Reform: bringing council tax in England into the 21st century* provides detailed evidence-based research on which to consider policy change.[19]

CIPFA continues to support the greater alignment between tax and spending decisions, to allow the freedom for business and communities to work with elected representatives in shaping the tax system to suit local circumstances. Additional newly assigned taxes such as stamp duty or a portion of income tax would achieve a cultural shift away from central government towards greater local accountability.

Non-domestic rates

CIPFA is currently contributing to the proposals to reform non-domestic rates[20]. We acknowledge that reform will be a longer-term development but there are matters that could impact directly on the Spending Review both in the long and short term. Consequently, a summary of some of CIPFA's key messages is set out here. The role of non-domestic rates is at the centre of commercial tension between online retailing and traditional high street shopping. In current times, changes to consumer habits and other societal changes have impacted adversely upon the traditional high street. The current pandemic with limitations on travel has resulted in a greater reliance on online retailing.

The current rating system, however, bases the level of charge on the rental value of a property and the level of rent paid for a high street property is significantly more than a distribution warehouse in a remote location. Most businesses can be replicated in an online environment but, if there is a political will to support the traditional bricks and mortar retailer, more must be done to ensure that they are able to compete fairly.

There has, of course, been a significant amount of criticism levied against online retailers who face less of a local tax burden. CIPFA does not consider that this is intentional avoidance of liability. It does, however, serve as an example of how historic taxation models do not fairly reflect changes in society. There are several ways that the tax burden between online and traditional retailers can be aligned by reforming rather than replacing non-domestic rates. These do not necessarily involve changes to the rating system or at least not in isolation. For example, changes to how properties are valued, an online sales tax or a hybrid model that combines an element of both could be utilised. It is

[18] https://housingevidence.ac.uk/publications/international-evidence-review-on-housing-taxation/

[19] *Revaluation and Reform: bringing council tax in England into the 21st century* https://www.ifs.org.uk/publications/14761

[20] Response to call for evidence on business rate reform

imperative that any changes that derive from this review are managed appropriately and local government is given a clear timetable for implementation in order to plan over the medium term.

In the shorter-term modification to mandatory rural rate relief is worthy of consideration. Currently, a property in an urban area receives full mandatory relief (under the small business rates relief rules). An identical property in a rural settlement, however, can only receive 50% mandatory relief which, in CIPFA's opinion, is inequitable.

Health and social care

A long-term solution for social care funding, clarity on public health funding and a multi-year capital settlement for the NHS

The ambitions and priorities set out in the NHS Long Term Plan (LTP), and the associated revenue settlement need to be reviewed and rest through the prism of COVID-19. While some of the ambitions may have seen significant progress as a result of the response to the pandemic (eg roll out of digital consultations and improved system working), others, such as waiting times and the five financial tests to put the NHS on a sustainable financial path, are now even more challenging, if not impossible to achieve.

The timescales and funding set to achieve the LTP ambitions must recognise the additional pressures and costs that have been incurred as a result of the response to the pandemic – service and cost pressures that have built up as a result of the response and suspension of 'business as usual', the need to continue to run COVID-safe services and the potential need to respond to further COVID outbreaks while maintaining services to meet ongoing demand.

NHS financial framework

The NHS financial framework changed beyond all recognition in response to COVID-19 to ensure that finance did not act as a barrier to the required rapid response. On resetting the NHS finance regime, lessons should be learned from this experience and a return to the status quo avoided.

System working

The desire to strengthen system working and formalise the role of STPs/ICSs has already been expressed by NHS England in its recommendations for an NHS Bill to be introduced,[21] and moves towards 'system by default' in planning guidance for 2020/21.[22]

CIPFA has long advocated financial structures that support the public sector as a whole to deploy resources in a way that focuses on outcomes and place, rather than on which 'pot' the money originates from. Therefore, the move to 'system by default' makes sense in this regard, with more integrated working through collective financial goals providing shared incentives to achieve common outcomes to the benefit of local populations.

In considering the progress of integration in light of the COVID-19 pandemic, lessons should be learned, and consideration given to the further devolution of responsibility for decision-making, finance and performance relating to the health and wellbeing of local populations. In doing so, there should be absolute clarity on where responsibility lies at national, regional and system levels – and how these are expected to interact.

The experience of the pandemic has particularly highlighted the value of local government partners in integration and the levers they have to influence health and wellbeing in local populations – not just social care and public health, but more widely in relation to services such as housing, children's and youth services and education. The development of a more enabling legislative framework should be

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[21] NHS, The NHS's recommendations to Government and Parliament for an NHS Bill, September 2019
[22] NHS, NHS operational and planning guidance 2020-21 (original guidance is currently on suspension due to COVID response)

considered, to ensure that scarce public funding can be best utilised across organisational boundaries to provide best value and outcomes for local populations, while ensuring accountability and proportionate, but not prohibitive, governance.

NHS capital

Declining capital budgets

In recent years, total capital budgets for health have been reducing in real terms. Investment in the UK health sector is much lower than comparable investment internationally.[23]

To enable the transformation required to meet the ambitions of the LTP, meet manifesto commitments, and address backlog maintenance, it is CIPFA's view that an increased multi-year capital settlement is needed. Following COVID-19, there will be even greater need for capital investment to ensure that the NHS can 'reset' to meet the demands of new ways of delivering care and ensure that the NHS estate is fit for purpose and resilient to any further resurgence of COVID-19, or similar future shocks. There will be a need to review existing capital plans and programmes in light of this experience.

Short-term approaches, such as transferring capital to revenue, must cease. Although these may relieve immediate pressures elsewhere, they perpetuate the decline in capital spending and store up problems for the future.[24]

Other options to increase investment should be explored as part of the review of capital funding. Possibilities include the recent suggestion of a government 'bond' for infrastructure investment in health, or capital collaborations between NHS bodies and local government.[25]

Health Infrastructure Plan

Last year's Health Infrastructure Plan[26] committed to a five-year rolling programme of investment in NHS infrastructure; reform of the capital regime to ensure funding addresses need; and funding for the wider health and care sector at the capital review.

The plan was also announced in the absence of a multi-year capital settlement. Announcing capital investment plans without certainty on the associated costs, or how it is to be funded, will not support prudent financial management. It does not provide certainty for those organisations planning the projects and their associated budgets – ultimately at the cost of value for money. Many of the projects announced have not yet reached full business case approval and may be years away from becoming a reality – over which time the associated costs will rise with inflation. Such costs are not included in the original allocations and will have to be found from elsewhere.

The Health infrastructure Plan should be revisited in light of the experience of the pandemic and clear transparent allocations made, related to the multi-year capital envelope. It should be represented as part of an overall coherent and costed capital strategy for the health sector as a whole – not only the acute sector.

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[23] The Health Foundation, Failing to capitalise, March 2019
[24] House of Commons, Committee of Public Accounts, Sustainability and Transformation in the NHS, Twenty-Ninth Report of Session 2017–19, HC 793, 27 March 2018
[25] As discussed in CIPFA/HFMA, Capital collaborations between the NHS and local authorities, June 2017 – although the potential for such collaborations involving leasing arrangements has been complicated by changes to IFRS 16
[26] DHSC, Health Infrastructure Plan, September 2019

A complex system in need of reform

NHS bodies have experienced increasing difficulty in utilising capital funding, either due to lack of access to capital funds, or to constraints imposed by the need to centrally manage combined investment against capital DEL.

It is widely accepted that the regime for capital funding needs to be redesigned and the government has committed to review it, and in doing so consider the existing fragmentation of funding sources, short-termism of capital decision-making and uncertainty for local health economies.

The allocation of capital at system level from April 2020, while welcome as it allows for investment to be allocated in line with local priorities, must not add to the bureaucracy of an already complex capital system. It is also essential that such system allocation leaves headroom to address local priorities in relation to investment beyond the acute sector.

A simplified and streamlined approval process was introduced in response to COVID-19, which enabled a more rapid response at local level. While this was in response to a crisis situation, lessons should be learned from this experience in simplifying the capital regime for the future.

Social care

It is essential to maintain a view of the interdependency between spending on the NHS, public health and adults' and children's social care in totality. Without a sustainable settlement for social care, the NHS will be unable to deliver on the ambitions in the LTP or adequately cope with any further resurgence in COVID-19 or similar future shocks. The repeated failure to address this issue is now having severe impacts on people needing care, their families and those involved in the delivery of care.

COVID-19 – a catalyst for change

COVID-19 has clearly highlighted weaknesses in the social care sector's resilience – and should act as a catalyst for reform. The shift in public perception of health and care services means there may never be a better time to address the relationship between state and individual, and to consider what a reformed funding system for adult social care may look like.

Challenges of funding adult social care

We have identified some key challenges that we believe have made it difficult to respond appropriately to social care needs, and which would need to be addressed when considering future funding for social care. These include:

- individuals face the possibility of catastrophic care costs
- managing increasing demand for services
- public funding has not kept pace with demographic demands
- the right long-term preventative investments are not being made
- provider market problems
- the market, unaided, cannot provide what is needed.

These challenges and some of the more common proposals for social care funding reform are discussed further in our recent publication.[27]

Five-point plan for a sustainable and equitable system for social care

There is a critical need to improve the long-term financial sustainability of the social care system. This can be achieved either by adjusting levels of funding or adjusting service expectations. This is a political and economic choice – but if neither option is taken, an unsustainable position will result. Although a separate policy matter, it is worth noting the importance of planned changes to local government financing arrangements. The movement towards incentivising local revenue raising via property taxes ignores the issue of relative need. Unless this is adjusted for adequately, the overall sustainability of social care could be fatally undermined.

While we make no recommendations on a given level of spending, nor a specific system for organising the split between state/individual contributions, we propose the following five-point plan for the development of a sustainable system:

1. A mechanism must be found to provide more stable and adequate long-term planning for social care spending within the context of the whole health and care system.

[27] The Road to Reform: COVID-19 as a catalyst for change in funding social care

2. Wider spending on supporting people should be reconsidered from a zero-based perspective – with an expectation that some rebalancing from other spending programmes will likely be appropriate (eg pensions, acute care, welfare).
3. Preventative investments should be encouraged/enabled to maximise long-term sustainability and value for money. This could be achieved by directed funding, incentives and/or reporting requirements.
4. The system needs to ensure fairness within/between generations and to protect individuals from catastrophic costs by pooling risks.
5. Reduce the sharpness of the differential between social care, as a largely paid for service, and health as an essentially free-at-point-of-use service.

Public health, prevention and place

There is clear evidence of the value of spending through the public health grant, with a recent study suggesting it is up to four times as cost-effective as spending by the NHS, and that therefore "the squeeze on the public health grant, while protecting NHS expenditure, over recent years is likely to have reduced health outcomes". Prior to COVID-19, it had been suggested that the public health grant required an immediate allocation of £1bn to restore real terms funding and account for demographic change.

The government's 2019 consultation on prevention highlights the importance of 'place' as being integral to the implementation of preventative strategies, and the need to ask fundamental questions on how much we value prevention. We welcome these areas of focus, and these are areas that we sought to explore in our collaborative work with Public Health England (PHE).

There is a need for a system-wide rethink on preventative investment to enable it to be considered as a true investment.

Making the prevention agenda a priority and focusing on outcomes across the health and care sectors has the potential to reduce demand, avoid future costs, improve financial sustainability and achieve greater benefits from the resources already available. The government has committed to greater focus on prevention, and we urge this prevention 'lens' to be widened beyond the current focus on public health to take a wider view of health, wellbeing and the associated determinants.

With the demise of Public Health England and the creation of the National Institute for Health Protection, there remain many questions around the future of public health in England, in particular around the fate of health improvement services and prevention. It is essential that the role of 'place' and the value of local knowledge is recognised in the future of these vital services. While there may be a need for central or regional co-ordination of national policies, it is essential that local government and integrated care systems also have a fundamental role in determining the priorities and solutions for their communities.

While the future of public health may remain uncertain pending consultation in the coming months, the Spending Review presents an opportunity to at least reverse the impacts of persistent reductions to the public health grant. In the longer term, there should be a renewed focus on prioritising preventative investment across the wider health and care system and how this could be appropriately evaluated and protected.

There are clear lessons to be learned from the current pandemic. The positive examples of joined up working and collaboration in parts of the wider health and care system should become business as usual across the country. Prevention should be viewed as a true investment – money invested now to improve outcomes and reap future benefits.

But most of all, there must be leadership from the top that enables these lessons to be applied consistently. The government needs to view the wider health and care system, including public health and health improvement, as parts of systems-based thinking, where weaknesses in one service will lead to failure in another, and fund all these interdependent services accordingly. This does not mean more centralisation. It means joined-up, coherent policy, adequate funding to meet demand and ensure the resilience and sustainability of vital services, and recognition that localities are best placed to determine what works in their area.

CIPFA therefore considers that this Spending Review should signal a clear direction towards place-based budgeting and commit to appropriately funding the revised landscape.