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Housing, Communities and Local Government Committee

Local government finance and the 2019 Spending Review

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Report, together with formal minutes relating to the report

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Housing, Communities and Local Government Committee

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Summary

Funding for local government has been cut significantly since 2010. At the same time as cutting funding, the Government restricted local authorities' ability to raise council tax to fill the gap. In recent years spending reductions have been less severe but local government spending is still much lower in real-terms than it was in 2010. In response to this financial pressure, local government has had little choice but to cut back on the non-statutory services it provides. For example, net expenditure on planning & development and housing services has more than halved and net spending on highways & transport and cultural & leisure services is down more than 40%. Increasing demand for adult social care means that this trend is set to continue unless local government is provided with additional central government funding or the power to raise more revenues locally.

Almost a decade of funding reductions has been accompanied by a move to business rate retention. This has made the local government finance system more complex, less transparent and has increased risks for some councils. Central government policy has also been inconsistent. NHS funding was protected but funding for adult social care was not. Councils were initially incentivised to freeze council tax but there is now an assumption that they will put it up above inflation. The lack of any council tax revaluation since the early 1990s also means that council tax is becoming disconnected from property values.

Local government currently faces significant uncertainty. It needs to be able to plan for 2020–21 but there is a risk that the multi-year Spending Review may be delayed. A new funding formula and 75% business rate retention is also due in April 2020. There is also still no sign of the Green Paper on adult social care which was originally scheduled for 2017.

Local government provides services for everyone but much of its resources are focused on some of the most vulnerable people in society. Children in care, adults with learning disabilities, the elderly in need of care and families at risk of homelessness are all reliant on services funded by local government.

The current uncertainty for local government and the lack of funding for services must be addressed as a matter of urgency. Our main conclusions and recommendations are as follows:

Reduction in non-statutory services

- **Local government must balance the books each year—the severe funding reductions it has faced has meant it has focused its spending on the acute pressures and has had no choice but to cut non-statutory services.**

Forcing local government to reduce resources for these services may cause higher costs in the future or just move pressures to other parts of the public sector.

Social care

- **The rising demands of social care (both for adults and children) are placing local government under increasing financial pressure. These services help some of the most vulnerable in society so must be properly funded**.

Governments have been reviewing the funding of adult social care for some years but without conclusion. Without a solution local government will continue to be forced to cut back on the other services that it provides. Our recent report on adult social care highlighted the need for increased funding. We reiterate the recommendations we previously made—there is a need for new revenue resources both at a local and national level. Local government must be given additional central government funding or powers to raise more revenue to deal with growing demand.

Uncertainty

- **Providing a multi-year funding settlement has allowed councils to plan ahead. However, the four-year settlement is now coming to an end, with no plans for the next financial year. The resulting uncertainty is causing problems for local government.**

Without clarity about funding in 2020 some local authorities will need to prepare for the worst, making decisions which may unnecessarily reduce spending and represent poor value for money in the longer term.

Business rates

- **The business rate retention system is too complex and lacks transparency.**

The tax is already coming under pressure from changes in the economy and the Treasury Committee is currently conducting an inquiry on the tax and its impact on business. Calls for reform are growing louder—it is hard to see how it will endure over the long term.

- **MHCLG needs to reform and make substantial changes to the business rate retention system.**

The Government should consider making the system simpler by bringing back the Revenue Support Grant to redistribute to councils in need rather than trying to do this through an increasingly complex business rates retention system. The Government also needs to start considering alternatives to business rates as a revenue stream for local government, given the risks to this tax over the long-term.

Council tax

- **Council tax is a regressive tax which has become disconnected from property values.**

As part of a review of council tax, the Government should consider the case for creating new council tax bands at the top and bottom of the scale. We will return to this in our progress on devolution in England inquiry.

A revaluation for council tax purposes is long overdue. The Government should hold a review into how a revaluation could be implemented without dramatic increases for individual households. Any revaluation should be revenue neutral at the national level. Revaluation also does not mean that significant changes in council tax must be put in place immediately, it could be phased in over time.

Expectations for local government and the need for additional funding

- **There is a lack of clarity about what is expected of local government. This ambiguity makes it difficult to clearly determine how much additional funding the sector needs.**

The Ministry of Housing, Communities and Local Government, working with HM Treasury and other departments, should clearly set out what tasks are expected of local government and how much funding it requires. It should draw upon the work of academics and other experts, such as the National Audit Office.

- **If HM Treasury wants local government to continue providing the services it currently does it needs to provide local government with a significant real-terms increase in its spending power.**

To restore local government expenditure to the position it was, as a share of GDP, in 2000–01 would require an increase of around £4 billion—that is before taking into account the increased demands for services such as adult social care and children's services over the last twenty years. Analysis by the Local Government Association (LGA) and also independent analysis from PwC on behalf of the County Councils Network both assess that the annual funding gap for local government will be around £5 billion in 2020–21. Looking further forward the LGA's analysis has estimated that by 2024–25 the funding gap will be around £8 billion.

Longer-term reform and devolution

- **In the short-term local government needs increased support from central government, but over the medium to longer term other solutions are needed to ensure that local government is financially sustainable.**

There is now significant urgency in delivering a solid future for the funding of local government in England. A decade of expenditure reductions has both service-delivery and constitutional implications.

- **Devolution of more responsibilities and revenue-raising powers to local government has the potential to improve the financial sustainability of the sector and allow better and more integrated services for the public.**

We intend to undertake a review of the progress of devolution in England which will examine a range of issues including access to new sources of revenue.

1 Introduction

1. The last three Spending Reviews have seen significant cuts in the support central government has provided to local government. The 2010 Spending Review set out real-terms cuts of 27% in the then Department for Communities and Local Government's budget for local government over the four years to 2014–15.[1] This was one of the largest cuts set out in the 2010 Spending Review. Other large departmental budgets had much lower real-term reductions, such as Education and Defence, or no real-term reduction, as was the case with Health. Further significant reductions in central government support for local government were set out in Spending Round 2013 and the 2015 Spending Review.[2] It is with this in mind that we decided to conduct an inquiry on local government finance in England in advance of the forthcoming Spending Review.

2. Our inquiry considered four key areas:

- The effects of changes in local government funding on local government services;
- The efficiency, fitness for purpose and sustainability of the current system for funding local government;
- The assessment of local government funding needs;
- The approach the Government should take to the forthcoming Spending Review.

3. The local government finance system is complex, and the challenges that local authorities face inevitably vary from place to place. The structure of local government across England is not uniform and over the last 10 years there have been changes to how local government is financed, most importantly the move to increased business rate retention. The Ministry of Housing, Communities and Local Government (MHCLG) is also currently undertaking a Fair Funding Review to assess the relative needs and resources of local authorities.

4. We have been not been able to look at all the many and varied local government finance issues in detail and there are other important topics (for example capital investment in infrastructure and the local government pension scheme) which we have not been able to cover at all. Instead we have aimed to produce a report in timely fashion that can inform the work that the MHCLG and HM Treasury are doing to set budgets and allocations for 2020 and beyond. The Minister for Local Government said that he was still presuming that a multi-year Spending Review would take place in 2019. However, others have said it is likely that it will be postponed. Nevertheless, central government must set out budgets for 2020–21 by the end of 2019.

5. We thank everyone who has contributed to our inquiry. We received over 100 written submissions from local authorities (and grouping of authorities), think-tanks, academics and others with expertise and insight into local government finance. We also had 3 evidence sessions where we heard from 15 witnesses including Rishi Sunak MP, the Minister for Local Government. Finally, we thank our Specialist Advisor, Professor Tony Travers.

1 HM Treasury, Spending Review 2010, p10, table 1
2 HM Treasury, Spending Round 2013 and Spending Review and Autumn Statement 2015

2 Local government funding

Reduced funding for local government

6. Local government is funded from three main sources: council tax receipts; a proportion of business rates; and central government grants. Since 2010 there has been a significant fall in the level of central government grants given to local authorities. This has to some extent been offset by increases in council tax and business rates over the same period but overall there has still been a large cut in the amount of money councils have available to spend. Local government 'spending power' in England has fallen by over a quarter since 2010. The National Audit Office (NAO) explained in their submission:

> 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'[3]

7. The Institute for Fiscal Studies (IFS) told us that "local government spending has fallen significantly, especially in deprived areas". It went on to explain that that "spending rose consistently through the 2000s … but began to fall from 2009–10. Since then it has fallen continually."[4] Professor Tony Travers from the London School of Economics told us that while local government had experienced funding cuts before "the reduction since 2010–11 is without parallel in modern times. The scale, intensity and the long time period over which it has taken place are greater."[5]

8. The halving in real terms of central government funding for local authorities has affected councils in different ways. The NAO noted that:

> these reductions [in central government grant] have a proportionately greater impact on the spending power of authorities that depend more on government funding as opposed to council tax. As a consequence, authorities that are relatively more grant-dependent, such as metropolitan district councils, have had greater reductions in their overall spending power.[6]

The IFS's evidence went on to explain that "these falls [in spending power] have not been spread evenly across councils—they have been larger for councils serving more deprived communities than for those serving less deprived communities" and calculated that between 2009–10 and 2017–18 there had been "cuts per person of 36% for the most-deprived fifth of council areas, compared to 22% for the least-deprived fifth of council areas". Nevertheless, the IFS analysis also showed that despite these cuts the most deprived areas still had around 25% more per person to spend than the least deprived areas did in 2017–18.[7]

9. MHCLG highlighted that since 2015–16 the overall spending reductions had been less severe than in the preceding five years. Their written submission noted that in cash terms "Core Spending Power of authorities in England for 2019–20 is £46.4 billion, an

3 National Audit Office (FSR0112)
4 Institute for Fiscal Studies (FSR0090)
5 Q2
6 National Audit Office (FSR0112)
7 Institute for Fiscal Studies (FSR0090)

increase of 3.8% from 2015–16 where Core Spending Power was £44.6 billion". However, the submission did not provide the change over that period in real-terms—if it had it would have shown a real-terms reduction in resources available to local authorities. The submission added that local government being less dependent on central government grants and receiving a greater proportion of their income in the form of council tax was "part of an ongoing objective to give local authorities more control over the money they raise".[8]

10. **Local government has coped with a prolonged period of real-terms spending reduction which is without parallel in modern times. This large fall in local authorities' resources has been primarily caused by very significant cuts in central government grants.**

Increasing demands and costs

11. While local authorities have had their funding reduced they have also had to cope with increased demands for the key services that they provide. Professor Murphy from Nottingham Trent University told us:

> The population has been growing but, more importantly, the parts of the population that rely on the services or have demand for the services have been growing more quickly than the population as a whole. We are getting fairly significant increases in demand, and the most obvious thing is social services.[9]

12. This point was echoed by a number of the witnesses. Professor Travers highlighted the growth in the number of older people, who needed social care services and also the increasing demand for children's services.[10] Dr Jonathan Carr-West of the Local Government Information Unit (LGIU) explained that "it is really important to say that the pressures on local government are not just about a lack of resources. They are also about growing demand".[11] Rob Whiteman of CIPFA agreed that the financial constraints had been compounded by "service pressures for elderly people in social care" and "volumes in children's social services".[12]

13. Our recent reports have highlighted the increasing demand and costs of social care. Our joint report with the Health and Social Care Committee on *Long-term funding of adult social care* concluded that the "combination of rising demand and costs in the face of reductions in funding has placed the social care system under very great and unsustainable strain. In its present state, the system is not fit to respond to the demographic trends of the future."[13] Our recent report on *Funding of local authorities' children's services* noted that the "demands on children's social services have been increasing each year for well over a decade. The number of looked after children in England has increased by 27% over the last ten years and is now at its highest level for a generation."[14]

8 Ministry of Housing, Communities and Local Government (FSR0016)
9 Q4
10 Q6
11 Q128
12 Q2
13 Health and Social Care and Housing, Communities and Local Government Committees, First Joint Report of Session 2017–19, Long-term funding of adult social care, HC 768, para 30
14 Housing, Communities and Local Government Committee, Fourteenth Report of Session 2017–19, Funding of local authorities' children's services, HC 1638, para 34

14. Other areas of demand and cost growth were also mentioned. Councillor Paul Carter, the Chair of the County Councils Network and leader of Kent County Council, told us that there had been a "massive rise in adult learning disabled and physically disabled" in Kent. He went on to add:

> Learning disability is becoming the greatest cost in our authority in Kent and in many other counties, where the families of disabled people are supported by the local authority for life.[15]

Councillor Fuller, the Chair of the District Councils Network told the Committee that demographic changes, the higher minimum wage and other factors "have increased demand and costs much more quickly than our ability to raise council tax or business rates."[16] He also considered that "so often, our costs are rising due to failures of other parts of the state". He gave examples of unaccompanied child asylum seekers and of young people failed by the justice system, going on to say "there is a question we need to ask of other Government Departments: why are we constantly picking up the bill?".[17]

15. Frances Foster of the Special Interest Group of Municipal Authorities (SIGOMA) considered that changes to the benefits systems were also causing problems for councils. She told us that "there is a lot of anecdotal evidence from councils in our SIGOMA authorities of people in their housing system turning up at surgeries with issues about the various council tax support reductions, the benefit freeze or the caps on rents".[18] The submission from the Local Government Association (LGA) also said that "changes and spending reductions introduced under welfare reform appear to be contributing to pressures on local government services".[19] Our inquiry on children's services heard from a number of witnesses who said that DWP reforms to benefits and cuts in other public services had contributed to the increased demand for children's social services.[20] The Government has committed to report back to us on their assessment on the demand for children's social services as part of their response to our report.[21]

16. Submissions also raised homelessness support as an increasing pressure on local authorities. The LGA highlighted that "pressures are particularly acute in adult social care, children's services and homelessness support".[22] London Councils agreed, citing "rising demand for homelessness prevention and support" alongside social services for adult and children as the three main pressures that were making the funding situation unsustainable. London Councils pointed out that the capital now had "55,000 households in temporary accommodation (68% of the national total)".[23]

15 Q92
16 Q83
17 Q93
18 Q101
19 Local Government Association (FSR0006)
20 Housing, Communities and Local Government Committee, Fourteenth Report of Session 2017–19, Funding of local authorities' children's services, HC 1638, para 59–60
21 Government response to the Housing, Communities and Local Government Select Committee Report on funding of local authorities' children's services, July 2019, CP 127, paras 33–36
22 Local Government Association (FSR0006)
23 London Councils (FSR0065)

17. Spending on temporary accommodation is increasing. Crisis, the housing charity, noted that recent research has estimated around £1 billion was being spent on temporary accommodation and highlighted the "sharp increase" in its use—there were 82,000 households in temporary accommodation in July 2018—a 71% increase since 2011.[24] A number of submissions considered some of this demand was being caused by benefit cuts. A joint submission from 15 organisations, including leading homelessness prevention and support charities, said that an increase in the local housing allowance rates was "desperately needed to prevent more people from becoming homeless because they can't afford to make up the shortfall between their housing benefit and their rent".[25] Evidence from the LGA also highlighted "a potential link between welfare reform and increases in rent arrears, housing insecurity and demand for temporary accommodation".[26] The NAO reported that the Government had not attempted to evaluate the impact of benefit changes on homelessness, but nevertheless concluded that it is likely that welfare reforms have contributed to the increase in homelessness.[27]

18. **The demand for costly and essential services which local authorities provide, such as adult and children's social care, has increased during this period of funding cuts. Some of these demands are being caused by failures or spending reductions in other parts of the Government, such as benefit reforms and changes.**

Response of local government

19. The reduced spending power of local government combined with the increased pressures on acute services has resulted in severe cuts in the non-statutory services that councils provide. The IFS's submission reported that "councils have adapted to reduced funding by making significant cuts to more discretionary services in order to relatively protect statutory and more acute services". It added that:

> councils' net expenditure on planning & development and housing services is down more than 50% and on highways & transport and cultural & leisure services is down more than 40%. On the other hand, spending on adult social care services has been cut by just 5% and spending on acute children's social care services (such as social work, safeguarding, and fostering) is actually up around 10%.[28]

24 Crisis (FSR0049)

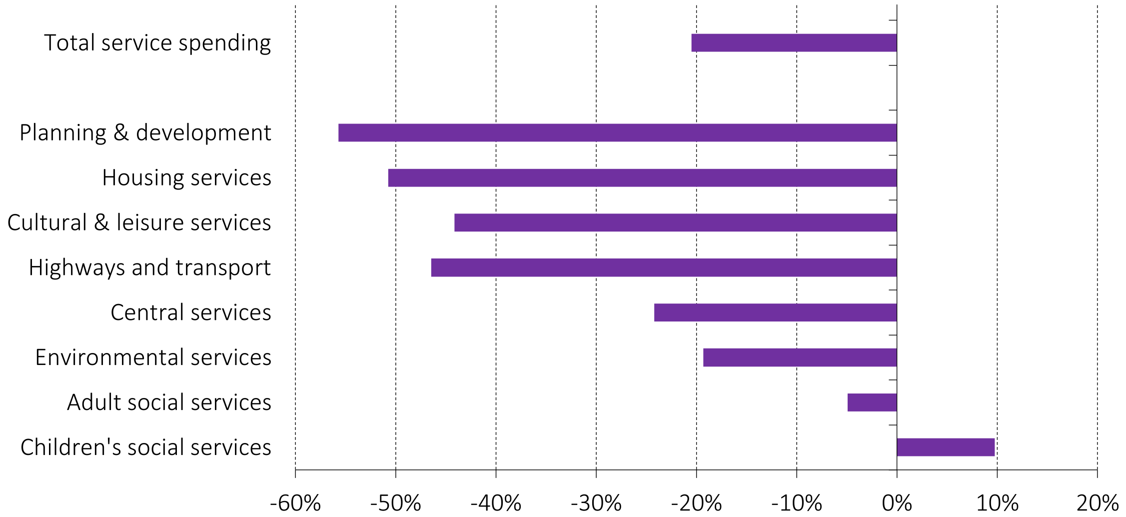
25 Written evidence submitted jointly by Caritas Anchor House, Centrepoint, Crisis, Depaul UK, HARP, Homeless Link, Look Ahead, My Space Housing Solutions, National Housing Federation, Porchlight, Roundabout, St Mungo's, The Salvation Army, Two Saints, and York Road Project (FSR0067)

26 Local Government Association (FSR0006)

27 National Audit Office, Homelessness, September 2017, HC 308

28 Institute for Fiscal Studies (FSR0090)

Figure 1: IFS analysis - real-terms change in local government service spending by service area, 2009–10 to 2017–18



Source: Institute for Fiscal Studies (FSR0090)

20. Neil Amin-Smith of the IFS told us that "councils have generally tried to protect more acute services at the expense of broader and more preventative services". He said that "funding for homelessness has gone up by 23%, but, at the same time, budgets for renewing private sector housing and housing advice have fallen by 87% and 60%" and that while "acute children's services have been protected, Sure Start funding has fallen by about 60% over the same time period".[29] Other witnesses also highlighted the cutting of non-statutory services. Professor Travers explained that, as statutory social care had been relatively protected, the significant funding reductions that local government had to cope with "means that everything else in local government has had to face a disproportionate reduction compared with the average." He noted that "services such as highways, leisure, arts and culture, youth services and, to a lesser extent, environment have faced bigger than average reductions within local government."[30]

21. The written submission from St. Helens Council explained that "when faced with a desperately strained social care system trying to look after elderly people, and increasing numbers of children being taken into care, issues such as recycling rates cannot possibly be considered as a priority". Its evidence highlighted statistics from a NAO report of 2018 which showed how these other services had been cut back:

- a 33.7% fall in the number of households with weekly bin collections;
- a 40.9% drop in food hygiene checks of cafes and restaurants;
- 48.4% cuts to bus route subsidies;
- a 22.3% rise in reported fly-tipping incidents, but a 42.6% reduction in enforcement actions over the same period;
- the closures of 10.3% of libraries; and
- the issuing of 67% fewer health and safety enforcement notices.[31]

29 Q21
30 Q20
31 St. Helens Council (FSR0040)

22. Cutting back on non-statutory services may be the only option for local government but it may not represent good value for money. Frances Foster of SIGOMA told us "a great concern now for our areas is the lack of spending on preventive measures".[32] Rob Whiteman of CIPFA made a similar point. He told us "there are discussions about whether cuts to youth services have led to problems with knife crime" adding that "many councils have cut youth services in order to balance the budget".[33] He agreed that short-term cuts may not provide savings in the long-term or could result in just displacing costs to another part of the public sector:

> Local government cuts public health, you can make savings now, but, if fewer people give up smoking, in 10 years' time we may see more people presenting at A&E with respiratory disease.[34]

23. A panel of experts on Public Health reiterated this. Alison Cox from Cancer Research UK told us that "in terms of the cost to the NHS, there is significant impact from not meeting what we could achieve by reducing smoking rates".[35] Jeanelle De Gruchy of the Association of Directors of Public Health told us that "everyone agrees that prevention is better than cure and that prevention is cheaper than cure". David Buck of the King's Fund explained that despite this "in general, the preventive end of the public health grant is where the cuts have come" as "the prescribed functions are being protected a little more than the non-prescribed functions".[36]

24. The submissions from the Salvation Army and Crisis made similar points regarding housing and homelessness. The Salvation Army explained:

> Between 2010–11 and 2017–18, spending on the former Supporting People programme fell by 69% (from £1.44bn to £444m). Much of this previous spend is now being used to fund local authorities' increasing reliance on temporary accommodation as a means to fulfil their legal responsibilities to homeless households who are assessed as being in 'priority need' of assistance.

It considered that spending on temporary accommodation "brings little lasting benefit. By contrast, the former Supporting People programme generated net savings of £3.4bn per year against an overall investment of £1.61bn."[37] Crisis also noted that the majority of spending by local government on homelessness prevention and support was now going on temporary accommodation. It concluded:

> Government's current response focuses its investment on tackling the symptoms of homelessness rather than addressing its root causes.[38]

25. **Local government must balance the books each year—the severe funding reductions it has faced has meant it has focused its spending on the acute pressures**

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32 Q83
33 Qq5, 17
34 Q18
35 Q143
36 Q143
37 Salvation Army (FSR0094)
38 Crisis (FSR0049)

and has had no choice but to cut non-statutory services. Forcing local government to reduce resources for these services may cause higher costs in the future or just move pressures to other parts of the public sector.

26. One other area we explored as part of the inquiry was local authorities' borrowing from the Public Works Loan Board to invest in commercial property. The submission from the Bureau of Investigative Journalism reported that:

> We found in the last two years the number of councils investing in commercial property had doubled. In 2017–18 alone, authorities spent £1.8 billion on investment properties, a six-fold increase from 2013–14.[39]

27. Rob Whiteman of CIPFA agreed that some of this borrowing for investment had gone too far. He said that borrowing for services and to regenerate the local economy were a "good thing" but there had been some cases of "excessive borrowing" to generate income. He gave the example of "Spelthorne, a district council with a £30 million turnover that has borrowed £1 billion in order to invest commercially". He noted that the prudential borrowing code that CIPFA set on behalf of the Treasury had now been tightened so that it is "against guidance for that degree of commercial investment outside of one's area".[40] However, Neil Amin-Smith said that one of the problems of local authorities only being allowed to invest in their own area was that it "prevents diversifying of risk", noting that "if there were a local economic shock, as councils are more dependent on local revenues for funding, if all their investments were also local they could take a hit on both fronts at the same time".[41]

28. **A number of local authorities have turned to commercial property investments funded with debt from the Public Works Loan Board to provide additional income. We welcome the tightening of the guidance to place more limitations on borrowing for commercial property acquisitions where such activity threatens financial sustainability of the local authority.**

Understanding and monitoring performance and efficiency of local government

29. In order to understand how well local authorities are coping with spending cuts it is important to have information on their activities and performance. The submission from the Institute for Government (IfG) provided some analysis on local government performance and efficiency. The Institute said that some data pointed to efficiency gains, noting that "there is evidence that, to some extent, councils have maintained the quality of the services they provide despite spending cuts". It said that "residents' satisfaction with waste collection, libraries, and road maintenance declined only slightly between September 2012 and October 2018 despite large spending cuts" and that "libraries are being run with fewer paid staff". However, it did point out that "total library opening hours… declined between 2009–10 and 2016–17".[42]

39 Bureau of Investigative Journalism (FSR0014)
40 Q28
41 Q28
42 Institute for Government (FSR0022)

30. Although the IfG said that "councils have become more efficient since 2010" it also considered that they "will find it difficult to make further efficiencies in their services". It cited "several warning signs" which pointed to deteriorating services. These included:

- **Children's social care**: the number of children going back onto a child protection plan increased from 6,000 to 14,000 between 2009–10 and 2017–18, there are higher numbers of children's social workers from agencies.

- **Adult social care**: staff vacancy and turnover rates are increasing, private providers in the adult social care market look increasingly financially fragile, unpaid care has risen since 2010.

- **Road conditions**: public satisfaction with road maintenance fell from 46% to 32% between September 2012 and June 2018.

- **Trading standards**: this is considered by the Department for Business, Energy and Industrial Strategy as a "high-risk area in the medium term" due to "local reductions going too far".[43]

31. The submission from the IfG also highlighted the challenge of getting good data on performance. It described central government's approach as "flying blind", saying that it "does not collect and use data and insight about local government spending and activity to make well-informed and consistent decisions". Its written evidence quoted local government officials. One said "there is no understanding in central government of operational reality. Different silos just lob things over the fence". The IfG considered that the abolition of the Audit Commission and the Government regional offices had at least in part "undermined the Government's ability to understand value for money and performance within the sector".[44]

32. Others agreed that data on activity and performance was now more scarce. Professor Murphy told us that in 2015 he had looked at the quality of performance data on behalf of the NAO and found that "the quality and quantity of data was going down and getting poorer".[45] Rob Whiteman of CIPFA also considered that "voluntary data collection, on the whole, has suffered from the cuts".[46] The Bureau of Investigative Journalism's submission also highlighted problems with spending data. It considered that "there are major inaccuracies in the financial data the government published on local authorities". It also said that it was "particularly difficult to place the financial figures and spending decisions of a single council into a local, regional or national context due to issues around the accessibility, transparency and quality of information".[47]

33. We asked Sir Amyas Morse, the outgoing Comptroller and Auditor General and head of the NAO, about some of the issues with data on spending and performance. He told us that "we do not think the returns that are coming in on a national basis are free from error, but on the other hand we think they are adequate for picking up major trends and developments". He considered that there "has to be a pretty good reason that you need

43 Institute for Government (FSR0022)
44 Institute for Government (FSR0022)
45 Q22
46 Q22
47 Bureau of Investigative Journalism (FSR0014)

the information" as "when you have organisations that are under so much pressure, it is not something that they are going to greet with a particularly enthusiastic cry".[48] The Comptroller and Auditor General went on to add:

> If you want to have good quality data, that was always done in the days of the Audit Commission by paying the auditors to do additional analysis. There is certainly less of that going on now than there used to be. There is a body there, but, again, you are talking about paying for it. Where is that money going to come from?[49]

Sir Amyas also emphasised that it was not the role of the NAO to monitor the performance or financial health of individual local authorities. He told us "we have not tried to evaluate whether local authorities are better at achieving planned outcomes" and noted that "My job is to set the [audit] code; I am not their distress phone call taker. That is not my job."[50]

34. We asked the Minister for Local Government how many staff at the Ministry monitor local government performance:

> We do not have a precise unit that does that or, therefore, a precise number of staff. As you will know, we have moved away from the Audit Commission to a different model.[51]

However, he implied that changes could be made noting that the "there is currently a live discussion about whether we have the right governance framework for local government in a post Audit Commission world. Stand by for more on that". He explained that the "Secretary of State … would outline his plans on that before November 2019, as he has committed to the NAO".[52] The Minister also said that he would always welcome more data and increased transparency:

> I am always in favour of more transparency. I generally think that having more data available in a comparable and transparent way is a great way for decentralised accountability to work.[53]

35. Following the final evidence session of our inquiry the Government announced a review into the quality of local authority audits. The review will be led by the former President of the Chartered Institute of Public Finance, Sir Tony Redmond. Initial recommendations are due to be published in December 2019 and the final report is due in March 2020. According to the press release:

> the review will look at the quality of the audit of local authorities, whether auditors are using their reporting powers correctly and if councils are heeding recommendations to help improve the financial management of their accounts.[54]

48 Q40
49 Q46
50 Qq42, 50
51 Q168
52 Q168
53 Q170
54 MHCLG press release, Audit quality of councils will face examination in new independent review, 10 July 2019

36. **Data available on the financial and operational performance of local authorities is limited—this makes it more difficult to assess whether spending cuts are being achieved through efficiency or deteriorating service standards.**

37. ***We welcome the Government's decision to undertake a review of local government audit. The review should, among other issues, consider how auditors can be more effectively used to highlight risks to financial sustainability, operational performance and value for money of local authorities.***

38. ***The Government should develop a more regularised and consistent approach to the collection and monitoring of comparative data about councils' performance, efficiency and financial sustainability. The current situation means there can be no certainty about the state of individual councils or the sector as a whole.***

3 Sustainability of the current system

Social care

39. As discussed in the previous chapter the demands on local authorities are increasing. This is particularly the case with social care (both for adults and children) which is taking up an increasing share of councils' financial resources. Sir Amyas Morse told us "it is a fact that overall service spending has been reducing, and has been more concentrated on social care activities, which are statutory".[55] Professor Travers noted that "between 2000 and 2018–19, the proportion of comparable local government spending that is devoted to social care has gone up from around 44% or 45% to nearly 60%".[56] This trend is set to continue in the future. Analysis from the IFS on forecast needs for adult social care noted that "meeting projected demands for adult social care spending would require an increase in the share of local tax revenues allocated to these services … over the next 15 years". The IFS found this to be the case even if council tax was to rise by 4.7% each year over the period.[57] The IFS considered one of the reasons that county councils were struggling financially was that they had "less flexibility to make cuts elsewhere while still protecting social care".[58]

40. The written submission from the MHCLG mentioned the forthcoming Green Paper on adult social care. It said that "Government has committed to publishing a Green Paper at the earliest opportunity setting out its proposals for reform to ensure the social care system is sustainable in the longer term."[59] Many of the submissions from local authorities expressed frustration with the delays to this paper, which was originally scheduled to be published in 2017. For example, Cambridgeshire County Council highlighted the uncertainty the delay was causing as the paper had "potential to significantly impact social care policy and funding for local authorities".[60] Other local authorities expressing concern about the lack of progress included Norfolk County Council, Hartlepool Borough Council, Greater Manchester Combined Authority and Leeds City Council.[61]

41. While the IFS analysis concentrated on adult social care, the costs of children's services have also been increasing. Analysis from the Bureau of Investigative Journalism showed that "in-year budget monitoring reports showed nine out of ten councils were predicting an overspend on children's services that year". In terms of the overall level of overspend the Bureau's work had found that in recent years children's services was becoming the greatest pressure. It explained that "adjusted for changes in costs, the overspend across all councils on children's social care reached £655m in 2016–17, while it was £536m for adult social care."[62]

42. Lord Porter, the outgoing Chairman of the LGA, emphasised the importance of these services and the serious implications if councils did not have the resources for them:

55 Q35
56 Q6
57 Institute for Fiscal Studies (FSR0090)
58 Q11
59 Ministry of Housing, Communities and Local Government (FSR0016)
60 Cambridgeshire County Council (FSR0096)
61 Norfolk County Council (FSR0017), Hartlepool Borough Council (FSR0024), Greater Manchester Combined Authority (FSR0034), Leeds City Council (FSR0048)
62 Bureau of Investigative Journalism (FSR0014)

> If the Government think the policy going forward is to spend all your reserves, and then we will find some new money to give you after you have spent all your reserves, the first serious shock will be when a Secretary of State has to stand up and explain to the public why those people died because the money was not available. … Why do we need to lose people because of money? …. We managed to find all the money the health service needed. Why have we not found it for adult social care?[63]

43. Our report on *Long-term funding for adult social care* highlighted the financial strain that the social care system is under and concluded that there was a "clear need for increased funding". The report stated that:

> Given the scale of the additional funding likely to be needed, a combination of different revenue-raising options will need to be employed, at both a local but also a national level.[64]

We recommended that at the local level the move to 75% business rate retention should provide additional funding for local government to fund social care rather than being offset by reducing other grants. We also recommended reform of council tax in the medium term.[65]

44. The Minister for Local Government acknowledged that social care was "the key area of pressure" and that "the Secretary of State for Health and indeed my Secretary of State are currently absorbing your great report and others to figure out a longer term solution"[66] He also noted that over the last year the most acute pressures seemed greater in children's services than in adult social care. He told us:

> Immediately after getting this job, a lot of the conversations were about adult social care. What I can see that has changed over the year I have had the job is that I hear more often about children's services now than I do about adults.[67]

45. **The rising demands of social care (both for adults and children) are placing local government under increasing financial pressure. These services help some of the most vulnerable in society so must be properly funded. Governments have been reviewing the funding of adult social care for some years but without conclusion. Without a solution local government will continue to be forced to cut back on the other services that it provides.**

46. ***Our recent report on adult social care highlighted the need for increased funding. We reiterate the recommendations we previously made—there is need for new revenue resources both at a local and national level. Local government must be given additional central government funding or powers to raise more revenue to deal with growing demand.***

63 Q93
64 Health and Social Care and Housing, Communities and Local Government Committees, First Joint Report of Session 2017–19, Long-term funding of adult social care, HC 768, para 88
65 Ibid, para 89–90
66 Q176
67 Q165

Uncertainty

47. The local government financial settlement for 2019–20 represents the last year of a four-year financial settlement. We heard that the lack of clarity over funding from April 2020 onwards made planning very difficult for local authorities. Councillor Paul Carter told us:

> You need medium term financial certainty. You cannot run an organisation the size of Kent County Council with a budget of £1 billion a year if you do not have a clue what you are planning for next year. Most of the decisions that need to be made have to be made in December, for public consultation, before the cuts are actually made and taken. We are going to run out of time fast, and we have no idea what target we are aiming for.[68]

48. Lord Porter of the LGA told us that without certainty, councils would have to prepare for the worst and "plan for service reduction the following year". In some cases that may mean "people will be getting redundancy notices when they do not need to".[69]

49. Frances Foster of SIGOMA agreed that there was a "need for medium term certainty for planning". She also said that while receiving additional funds in the form of in-year grants was welcome "you are not necessarily getting value for money because you are trying to react in spending the money, and you perhaps would have done it differently if you had had it up front". Councillor Fuller of the District Councils Network echoed this view saying that "you also get one-off grants midyear and it is too late in the year to spend them". He considered that longer-term certainty was preferable noting that nearly all councils had accepted the previous four-year deal in 2015 despite the significant funding cuts as "we knew where we stood".[70]

50. The submission from the LGA noted that "local government has welcomed settlements which cover more than one year at a time as they allow for forward planning and a more efficient allocation of resources". The LGA's proposed solution was "multi-year settlements tied to the life of a Parliament in order for these 'cliff-edges' to be kept to a minimum" or "multi-year rolling settlements which cover more than one spending review period would be one way of getting rid of cliff edges altogether".[71]

51. Dr Carr-West of the LGIU expressed real concern about the situation:

> These are actual life and death issues that are managed and delivered by local government day in, day out, for communities around the country. We do not know how those are going to be funded this time next year.

He expressed doubt that the Fair Funding Review and 75% business rate retention would be completed by the autumn which would make a long-term financial settlement for local government not possible.[72]

52. On 4 June 2019, in evidence to the House of Lords Economic Affairs Committee, the Chief Secretary to the Treasury expressed doubt about the timing of the Spending Review.

68 Q107
69 Q107
70 Q107
71 Local Government Association (FSR0006)
72 Q139

She said that it was "unlikely to happen, given the current timetable for the Conservative leadership election." She explained that capital budgets for 2020–21 had already been set but there were no revenue budgets from April 2020 so these would need to be set if there was no full Spending Review.[73] We asked the Minister about reports that the Spending Review would be delayed but he said that the team in the Department were still preparing "for a spending review, which will happen over the summer, conclude at the Budget and be for a multi-year period".[74]

53. **Providing a multi-year funding settlement has allowed councils to plan ahead. However, the four-year settlement is now coming to an end, with no plans for the next financial year. The resulting uncertainty is causing problems for local government. Without clarity about funding in 2020 some local authorities will need to prepare for the worst, making decisions which may unnecessarily reduce spending and represent poor value for money in the longer term.**

54. ***Ideally local authorities would already know their level of funding for 2020–21 to allow them to effectively plan for the coming year. We recommend that MHCLG and HM Treasury provide a multi-year settlement for local government which runs for one year beyond the Spending Review period—the same approach that is currently used for Departmental capital budgets. In the short-term the Government should provide assurance on 2020–21 funding as soon as possible—for example by stating that no council will receive less in real terms spending power in 2020–21 than they did in 2019–20. Such a commitment should apply to services not covered by any ring-fenced resources for adult social care.***

55. ***It would be better to adequately and sustainably fund councils and to rely less on one-off pots of cash. If necessary, any additional funding should be distributed as quickly and efficiently as possible with any bidding process kept to a minimum.***

Business rates retention

56. During the course of our inquiry we discussed business rates retention. Neil Amin-Smith of the IFS told us that "from next year, councils will retain, as a whole, 75% rather than 50% of business rates revenues and grant funding will be reduced commensurate with that". He explained that "the key advantage of making local government more reliant on its own revenues, is to provide an incentive to local government to grow those revenues and, ideally, promote economic growth within their areas." However, he added that this could lead to greater divergences between funding levels and councils that "for reasons beyond their control, are less able to grow their local economies" could lose out. We asked Mr Amin-Smith whether or not there was any evidence that the system did give councils an incentive to aid economic growth in their localities. He said it was hard to get robust evidence in the absence of a control group although he added that growth in business floor space in a locality (which councils were incentivised to grow through the system) was not correlated with economic growth of an area.[75]

73 Oral evidence taken before the House of Lords Economic Affairs Committee, The Spending Review - oral evidence, 4 June 2019, Q2

74 Q155

75 Qq23–24

57. The Minister for Local Government thought that you needed a longer timeframe to really evaluate the effect of increased business rate retention. He considered that "taken in aggregate, it is probably valuable". He considered that it had encouraged councils to become more pro-business and enterprising and that the pooling arrangements for some of the pilot schemes had resulted in councils working well together.[76] Councillor Fuller provided an example, explaining that his council were investing in infrastructure of a business park to create "an investable opportunity".[77] One of his concerns was that local authorities may end up getting very little of the benefit of the business rate growth due to resets. He explained:

> Let us say you work hard to get inward investment … [a company] opens their factory on 31 December 2024 and the reset happens on 1 January 2025, all that effort is wasted.[78]

He considered that there needed to be some "phased reset" so that longer term investments in projects such as link roads could provide a return for the council.[79]

58. Other witnesses we heard from had concerns with the system. Frances Foster from SIGOMA explained that the municipal authorities "have not been as keen on business rate retention, because many of our areas have not seen the growth that other areas have had".[80] Councillor Carter considered the future of business rates as a tax was "very high risk". He pointed out that the increase in flexible working and reduction in manufacturing meant that "the big commercial ratepayers are potentially going to diminish, not increase".[81] Sir Amyas Morse also questioned "how realistic basing everything on business rates really is". He went on:

> If I happen to be running a large square footage distribution centre, you are going to get a lot of business rates from me, but on the other hand if I am in another business with a remote fulfilment arrangement somewhere else, and I am just doing everything online, you are not going to get very much from me at all. That is a really odd state of affairs to be in. Even though it may be convenient to go forward with it now, I cannot believe it will endure forever, because it is just such an odd way of trying to measure business activity.[82]

The Treasury Committee is currently conducting an inquiry on business rates, looking at the impact of the tax on business and into how well the current system is operating.[83]

59. Evidence from Leeds City Council raised other problems with business rates. It considered that "rates receipts are sensitive to a number of factors that we would argue are entirely out of the control of local authorities" highlighting the risk of appeals and avoidance techniques of some businesses. It also noted that if schools convert to become

76 Q199
77 Q110
78 Q117
79 Q110
80 Q110
81 Q110
82 Q65
83 Treasury Committee press notice, New inquiry launched into the impact of Business Rates on business, February 2019

academies they are eligible for a mandatory charitable relief of 80% of business rates.[84] The risk of appeals was also mentioned in many other submissions we received. For example, the submission from North East Lincolnshire explained that "multiple appeals has seen a financial impact measured in millions of pounds of reduced business rates that could not have been foreseen or influenced but has affected the funding available to the council at a local level with no central adjustment or relief for us". It also highlighted the "increased risk" it was exposed to from its reliance on relatively few big payers of business rates.[85] The Minister for Local Government agreed that appeals were a problem, telling us that "the volatility of appeals is the big thing … appeals volatility is cumbersome for councils to deal with. We are trying to find ways to reduce that volatility."[86]

60. Dr Carr-West of the LGIU highlighted what he saw were "five key problems" with the business rate retention system:

> Both the NAO and the IFS have questioned the link between business rate retention and increased growth, so I do not think it necessarily does what it is meant to do. It creates perverse incentives, in that it encourages you to encourage certain types of business, which might not be the ones you wanted if you were taking a more rounded place shaping view. There is no causal link between business rate income and need, to the point you were making earlier, Chair. It does not fit with that. It does not capture a lot of modern business activity. It is very volatile, which undermines its sustainability.[87]

Andrew Carter of Centre for Cities considered that "everybody is in agreement that the system does not work and yet there is no agreement at all on what the alternative ought to be."[88]

61. One thing that united all the witnesses we heard from was that the business rate retention system had made the local government finance system extremely complex. Professor Travers explained that the element of redistribution within the system meant it was difficult to explain and understand.[89] Dr Jonathan Carr-West's assessment was that it was an "unbelievably complicated system of tariffs and top ups that nobody understands".[90] The Minister for Local Government acknowledged this and told us that he was "in violent agreement that it is a complicated system and, if it is possible to simplify it, we should."[91]

62. A concern of Lord Porter from the LGA was that HM Treasury was taking a cut of the business rates. He considered that if local government was able to keep the whole £26 billion of business rates it would quite quickly be able to work out how it could be distributed fairly. Lord Porter told us "if you let us keep the £26 billion, we will show you what fair looks like."[92] London Councils made a similar point:

84 Leeds City Council (FSR0048)
85 North East Lincolnshire (FSR0038)
86 Q207
87 Q133
88 Q133
89 Q23
90 Q133
91 Q203
92 Q115

> The 1988 LG Finance Act states that the entirety of business rates collected in England must be used to fund local government. However, the Government does not publish how the central share of business rates (i.e. the 50% share that not directly retained locally) is returned, merely that it funds "other grants" to local government. It is, therefore, unclear how the overall level of Revenue Support Grant (RSG) is set each year and is extremely difficult to verify when supposedly new funding is found.[93]

A further submission from London Councils said that "there is no transparency about how over £10 billion of business rates revenues are returned to local government as specific grants".[94] The latest figures available from MHCLG show that Core Spending Power of local government in England is set to be £46.4 billion in 2019–20—this is around £10 billion lower than the combined total of council tax (£31.4 billion) and business rates (£25.0 billion) forecast to be collected by local authorities in the same year.[95]

63. **We welcome policies which allow local government to have more control of the revenue it raises and how it is spent. However, the business rate retention system is too complex and lacks transparency—the system attempts to create incentives for growth whilst also redistributing revenues according to need. The tax is already coming under pressure from changes in the economy and the Treasury Committee is currently conducting an inquiry on the tax and its impact on business. Calls for reform are growing louder—it is hard to see how it will endure over the long term.**

64. ***MHCLG needs to reform and make substantial changes to the business rate retention system. The Government should consider making the system simpler by bringing back the Revenue Support Grant to redistribute to councils in need rather than trying to do this through an increasingly complex business rates retention system. The Government also needs to start considering alternatives to business rates as a revenue stream for local government, given the risks to this tax over the long-term.***

Council tax

65. The cuts to central government grant mean that council tax is becoming an increasingly important funding stream for local government. For example, Essex County Council noted that in 2013–14 council tax made up 54% of their total funding but in 2019–20 it will amount to 73%.[96]

66. We asked the witnesses about council tax and whether or not they considered it needed reform. Lord Porter told us that the benefits of the tax were that it was "relatively easy to collect, because nobody can hide the house they live in".[97] Frances Foster of SIGOMA noted that "there have been various reviews over the years … which could not come up with any alternative that was better. We might have to accept it where it is".[98] Dr Carr-West of LGIU agreed noting "there is a stability and a predictability to it, which

93 London Councils (FSR0065)
94 London Councils (FSR0117)
95 MHCLG, Core spending power: final local government finance settlement 2019 to 2020, January 2019; MHCLG, Council tax levels set by local authorities: England 2019–20 – Revised, May 2019; MHCLG, National non-domestic rates to be collected by local authorities in England 2019–20, February 2019
96 Essex County Council (FSR0061)
97 Q118
98 Q112

the sector finds very attractive" but he said that "there are things you could do to make it work better". For example, he said that "you could add in extra banding and you could look at changes around the referendum threshold" however he considered that a "a full revaluation would be politically very hard".[99] Dr Carr-West and the LGA's submission also highlighted the inconsistent approach that central government had taken to council tax since 2010—initially councils were given financial incentives to freeze it but since 2016 it has been assumed that councils will increase the tax above inflation.[100]

67. Property valuations for council tax banding are still based on the values of properties in 1991. Some of the witnesses considered that a revaluation should be undertaken. Andrew Carter of Centre for Cities told us it is "the most regressive tax we have in terms of how it falls and the amount paid as a share of income at the lower end". He noted that "there was revaluation done in Wales … the world did not end in Wales … people still live there and they continue to pay their council tax". He continued:

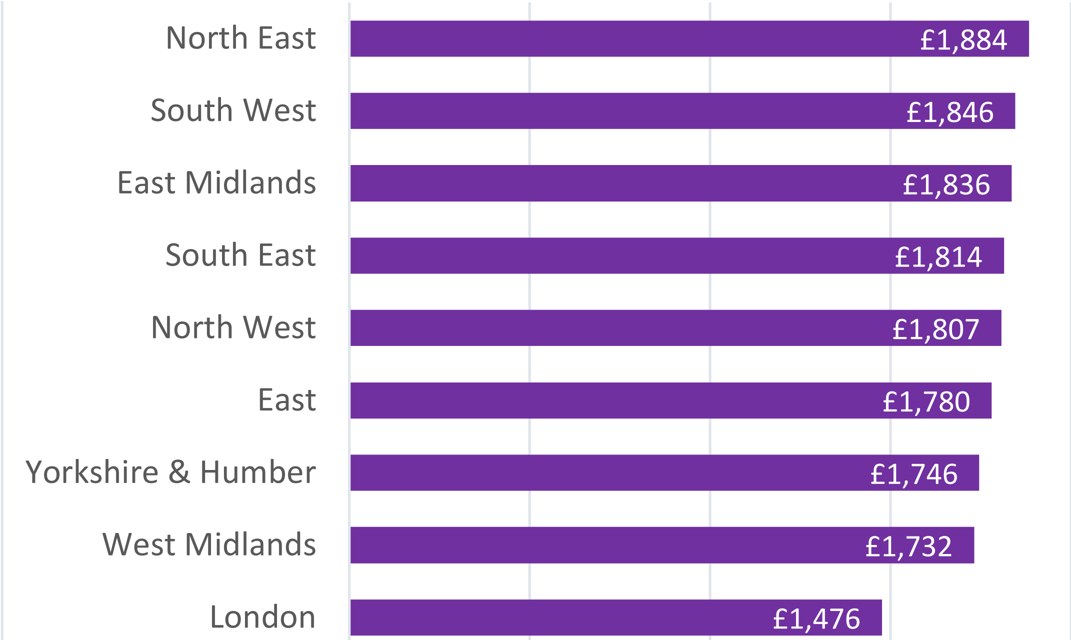
> The idea that it is impossible to revalue I do not buy. It is politically difficult. You could go for a fiscally neutral resettlement, so you revalue and it raises no more on day one than it does currently; it is just distribution. Who pays what would be altered according to the changes in the values of house prices. It needs to be revalued as part of that. That may well mean that we introduce additional bands to reflect variations.[101]

68. Councillor Carter of the County Councils Network agreed with the need for revaluation "you could look at the valuations of houses and regrade them into new tax bands. That is long overdue. It is very historic". He noted that a borough like Hackney used to have very low house prices but now there are "million pound apartments".[102] Rob Whiteman from CIPFA considered that you needed "regular revaluations of council tax and business rates, rather than the system needing huge amount of change because [revaluations] get delayed and delayed". Written evidence from Professor Travers highlighted that "council tax … is clearly in need of revaluation."[103] The written submission from SIGOMA highlighted the "regressive nature of the tax" noting that "there were 28 Councils where the average tax was over 0.7% of property values whilst there were 21 authorities where Council Tax was less than 0.3% of property values". All of the low ratio areas were in London whereas the highest ratio areas included "some of the poorest metropolitan authorities including Redcar and Cleveland, Stockton on Tees, Blackpool, St Helens, Rochdale, Oldham and Stoke on Trent".[104]

69. Analysis from CIPFA published by the BBC showed that in 2019–20 the North-East of England had highest average council tax for a Band D property—this was 28% higher than London which had the lowest level for Band D properties (Figure 2). Lord Porter said "you would have to question why, in some parts of the country, citizens pay one amount of council tax and, in another part of the country, they pay a different amount of council tax".[105]

99 Q135
100 Q135, Local Government Association (FSR0006)
101 Q135
102 Q122
103 Professor Tony Travers (FSR0111)
104 SIGOMA (FSR0074)
105 Q95

Figure 2: Average Band D 2019–20 council tax bills in England by region



Source: CIPFA survey of local authorities published by BBC, March 2019

70. The submission from Oldham Council contrasted their council tax level with that of Westminster:

> how is it justifiable that Band D Council Tax in the prosperous London Borough of Westminster is £753.85 when compared to a 'high needs' borough like Oldham where, due to long-standing disparities in the assessment of spending need, it is £1,899.61. The regressive nature of the tax is also illustrated by the fact that full time weekly average earnings are just £481 per week in Oldham compared to £786 per week in Westminster.

71. Written evidence from Professor Travers noted that "Westminster City Council introduced a voluntary additional levy on higher-value homes for 2018–19 and has advocated powers to raise council tax levels on such properties".[106] Westminster City Council asked residents of the most expensive band H properties to consider paying an extra £833-a-year "community contribution". A news report in the Guardian said that around 2% of those households had agreed to make a contribution. The article also noted that the service charges on some expensive flats in Westminster amounted to over £20,000 a year whereas the annual council tax bill was less than £1,400.[107]

72. We have previously recommended reform and an updating of council tax valuations and bands.[108] We asked the Minister for Local Government about council tax. He told us:

> I do not necessarily accept that it is extremely regressive. There are also significant local council tax support schemes in place to help those who are more vulnerable in paying their council tax.

106 Professor Tony Travers (FSR0111)
107 The Guardian, Wealthiest households in Westminster failing to pay extra £833 in tax, 13 May 2018
108 Health and Social Care and Housing, Communities and Local Government Committees, First Joint Report of Session 2017–19, Long-term funding of adult social care, HC 768, para 90

He made clear that he opposed revaluation telling us "I am not interested in revaluing council tax bands or introducing new rates."[109]

73. **Council tax is a regressive tax which has become disconnected from property values. All houses built over the last 25 years still have to be valued by the assessor as to what the value of the property would have been in 1991. This cannot continue. There needs to be a review of council tax including revaluation, the number of bands and the ratio between bands. Some form of revaluation of bands to reflect prices today is required. There is also potential for raising more sums from high value properties by increasing the number of bands.**

74. ***As part of a review of council tax, the Government should consider the case for creating new council tax bands at the top and bottom of the scale. We will return to this in our progress on devolution in England inquiry.***

75. ***A revaluation for council tax purposes is long overdue. The Government should hold a review into how a revaluation could be implemented without dramatic increases for individual households. Any revaluation should be revenue neutral at the national level. Revaluation also does not mean that significant changes in council tax must be put in place immediately, it could be phased in over time. We recognise there will be effects on individual authorities and adjustments to the equalisation system will be needed to deal with this. Under any revaluation the bands will need to be adjusted to reflect changes in property prices over time.***

Fees and charges

76. Local government is able to levy charges for some of the services it provides. The submission from the LGA explained that local authorities receive over £12 billion annually from a variety of sales, fees and charges. This income is useful for local authorities as it can be used to support spending on certain services (the spending power figures quoted earlier in this report are net of this income). However, the LGA noted that many of these charges were set by statute and so did not recover costs. They provided the example of planning fees:

> While the number of planning applications has increased since 2010, the funding available for this service has been cut in half. Evidence suggests that councils have used an initial 20 per cent planning fees increase to invest in new planners to help developers build the home communities need, however they will still be in deficit by £700 million between 2017–18 to 2021–22.

The LGA called for councils to be given more freedom to set planning fees so that costs could be recovered.[110]

77. The submission from the County Councils Network noted that the ability to generate income from fees and charges varied widely depending on the type of council and services it provided—in 2018–19 fees and charges made up just 5% of spending need at county councils but 15% for unitary authorities and 60% for district councils. They called for

109 Qq218, 219

110 Local Government Association (FSR0006)

further powers to charge for accessing services or administering schemes. They suggested being able to make a "modest charge for access to services such as House Waste Recycling Centres, or to place a small administration fee on freedom pass applications".[111]

78. The submission from the Centre for Cities called for more flexibility in how fees and charges could be used. It said that the "Government should allow sales fees and charges raised in one service area to be spent on any service area".[112] The LGIU reported that "almost all (97%) councils told us they plan to increase fees and charges this year". It was concerned that local authorities were "having to increase charging to cover financial shortfalls from reductions in Revenue Support Grant". It urged caution highlighting some of the risks:

> Increasing use of fees and charges in this way risks undermining the democratic and redistributive aspects of local taxation; if people start seeing council services like waste as something they purchase separately, they may feel cheated when they are also charged council tax on top.[113]

79. **We believe that, in general, the level of fees is best decided locally. Central government should not dictate fees for services, such as planning, at a level that means councils are unable to recover their costs.**

80. **Councils are turning to fees and charges to generate income. This is a logical consequence of significantly reduced central government support—increasing fees is one of the few ways councils can generate income, given council tax rises are restricted. Nevertheless, we have concerns about higher fees and the introduction of new user charges for essential services. Council taxpayers may feel like they are paying twice for services and fees are usually unrelated to the ability of a user to pay. There may also be unintended consequences—for example high waste disposal fees may encourage fly-tipping.**

Inflationary pressures

81. A number of witnesses and written submissions explained that increasing wages and other costs were putting local government finances under strain. Councillor Carter told us about the "inflationary pressures" at work:

> Our staff expect pay rises every year … Unless we have a settlement that reflects the pressures and the inflationary costs of the commissioned services, the domiciliary care contracts and the residential care contracts, the future looks exceedingly bleak.[114]

Councillor Fuller mentioned the local government pension scheme and the increasing minimum wage which had caused costs to go up.[115]

82. Written evidence from Hartlepool Borough Council noted that "pay costs are one of the largest areas of expenditure, whether this is on directly employed staff or staffing

111 County Councils Network (FSR0009)
112 Centre for Cities (FSR0005)
113 Local Government Information Unit (FSR0046)
114 Q92
115 Q83

delivering services provided by partner organisation." It noted that increases in national agreed pay awards, including the national living wage, increased cost for all local authorities but considered that this was particularly an issue for councils, such as Hartlepool, with a low council tax base as it was much more difficult for it to raise funds. It also noted that these wage rises helped increase central government tax take (income tax and national insurance) but local government saw no direct benefit.[116]

83. A number of other submissions mentioned the cost increases caused by rises in staffing costs. Norfolk County Council said that the "national living wage and market pressures through care worker and nursing shortages are causing costs to escalate year on year" and also noted that the Apprenticeship Levy had added to council costs.[117] Care England, a body which represents independent care services, said that "the uplift in the National Minimum Wage was 4.4% in 2018–19 alone and 4.9% in April 2019."[118] Other councils which mentioned the unfunded cost increases caused by above inflation rises in the National Living Wage included Hampshire, Sheffield, Essex and Lancashire.[119] Rutland County Council also mentioned auto enrolment for pensions as something which had caused increased costs for some employers.[120]

84. We asked the Minister for Local Government about what work the Ministry and HM Treasury had done on looking at the effects of increases in the living wage and minimum wages on local government costs and on the viability of some providers of services to local government. The Minister said that he was "acutely aware" of some of the risks surrounding the stability of the provider market and that it did factor cost inflation for different local government services in analysis for the Treasury. He explained:

> We go down to a granular level on the inflation that is relevant for each individual service area. For example, take local government pensions, or whatever it might be, for the core HR component of local government infrastructure. That should feature; you are absolutely right, and it does.[121]

85. **Increases in the National Living Wage and other new responsibilities for employers such as the Apprenticeship Levy can result in significant cost increases for local government. Councils ability to raise revenue to pay for these increased costs is extremely limited particularly in areas with a low council tax base. Increases in the pay for the low paid are important. However, while central government can benefit financially through lower benefit payments and higher tax revenues central government provides no additional funding for local government to recognise these above inflation cost increases.**

86. **When the MHCLG sets out the spending power increases of local government it doesn't provide any context for the spending pressures that local government is under. Therefore, it is difficult to judge if the changes in spending power represent real-terms increases when taking account of increased costs of and demand for services.**

116 Hartlepool Borough Council (FSR0024)
117 Norfolk County Council (FSR0017)
118 Care England (FSR0050)
119 Hampshire County Council (FSR0018), Sheffield City Council (FSR0044), Essex County Council (FSR0061), Lancashire County Council (FSR0077)
120 Rutland County Council (FSR0002)
121 Q185

87. ***The Minister for Local Government told us that MHCLG produces figures on the spending inflation levels of different local government services. It should publish past assessments (from 2015 onwards) on service cost inflation. It should also publish these figures and an average 'local government inflation' figure alongside other documents relating to the annual local government finance settlement each year. This will allow parliament and the public to assess whether councils are receiving real terms increases in their spending power or not. The Office for Budget Responsibility could have a role in overseeing the quality of such a process.***

4 Spending Review and future reform

The role of local government and the funding gap

88. Establishing what is expected of local government is essential if decisions about funding can be properly made. A number of witnesses considered that there needed to be a discussion about what the role of local government was and what was expected of it. Sir Amyas Morse explained that:

> Our 2018 financial sustainability report called for Departments to … think through at the next spending review what they wanted from local authorities. Is it to be a reduced offer centred on social care, or will it continue to say that it is a broader offer, including a wide range of service provision? Which of those is it? There is going to need to be some clarity as we approach the spending review as to what the purpose is.[122]

Neil-Amin Smith of the IFS made a similar point:

> … when Government assess the spending needs of councils, they only do so on a relative basis, so how much councils need relative to each other. They do not attempt to make an assessment of how much councils need in total to provide a given level of services at a certain quality and at what efficiency they should be able to do that. It is a very difficult task to do that, but, especially given the spending review, it could be quite an important one to do. It would also force the Government to be more transparent about what we expect from local government and to have that discussion.[123]

89. In May 2019 the IFS published a report on council funding in England. This considered that "the total amount of funding available to councils looks like it will become increasingly inadequate, despite an end to overall budget cuts". It said this was "because current plans seem to envisage councils relying on council tax and business rates for the vast bulk of their funding—and revenues from these taxes are unlikely to keep pace with rising costs and demands." The report went on:

> A big choice therefore looms:
>
> - Either councils have to be provided with additional revenues, to enable them to continue providing existing services, let alone extend and improve them;
>
> - Or government and society must accept that councils can afford to provide fewer or lower quality services than they currently do.[124]

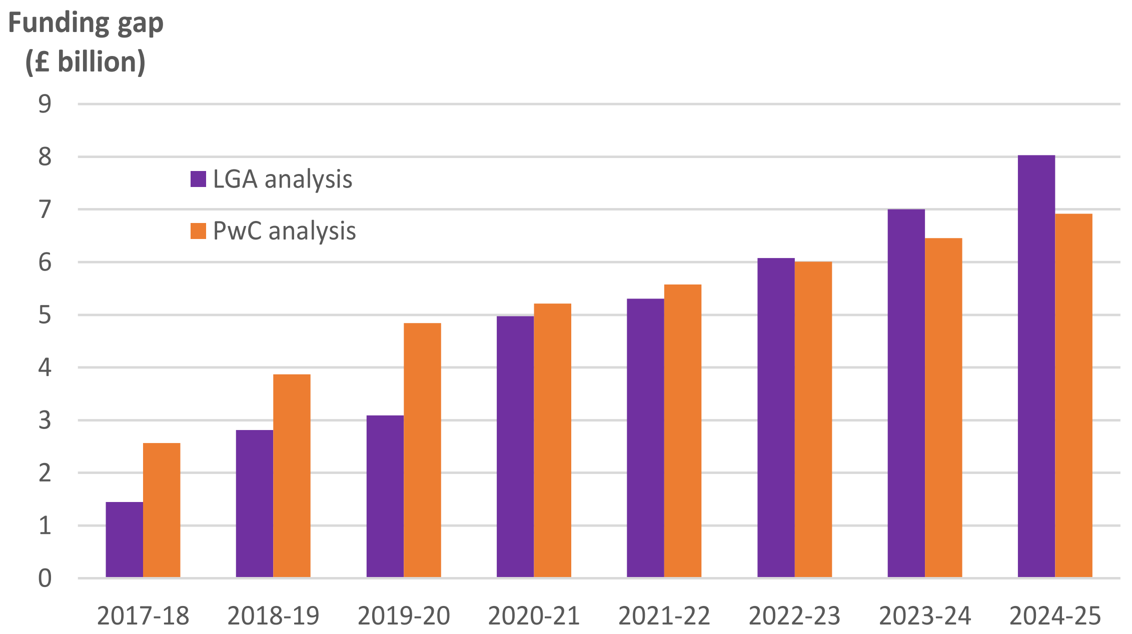
90. In evidence to the Public Accounts Committee at the end of 2018 the Permanent Secretary implied that the Ministry assessed financial sustainability only in terms of delivery of statutory services.[125] SIGOMA's written evidence took issue with this and considered that "simply providing the statutory minimum is not sustainable". It mentioned

122 Q35
123 Q5
124 Institute for Fiscal Studies, English council funding: what's happened and what's next?, 29 May 2019
125 Oral evidence taken before the Public Accounts Committee on 26 November 2018, HC (2017–19) 1775, Q65

non-statutory services such as Youth Services, Sure Start and Early Years Provision which it considered had helped reduced demand on local authorities statutory services and other services provided by the wider public sector.[126] The submission from Manchester City Council also criticised the Permanent Secretary's definition of sustainability as being a too narrow view of the role of local government saying that it "shows a lack of appreciation for the wider role of local government in shaping communities and improving the economy".[127]

91. Given that there is debate about the scope and quality of the services that local government is expected to provide, any quantification of the funding gap will always be open to challenge. At one extreme, some may argue that as long as a local authority is able to provide the bare minimum statutory services no funding gap exists. At the other end of the spectrum, others could highlight the fact that if local government spending power had kept pace with inflation since 2010 it would be around £10 billion higher than it currently is and this is before any consideration of increased demand. Nevertheless, it is useful to look at the analysis which has been done providing estimates of the funding gap.

Figure 3: Estimates of annual local government "funding gap"



Source: Local Government Association briefing, Debate on local government funding, 15 January 2019; PwC, Independent review of local government spending need and funding - Summary report, May 2019

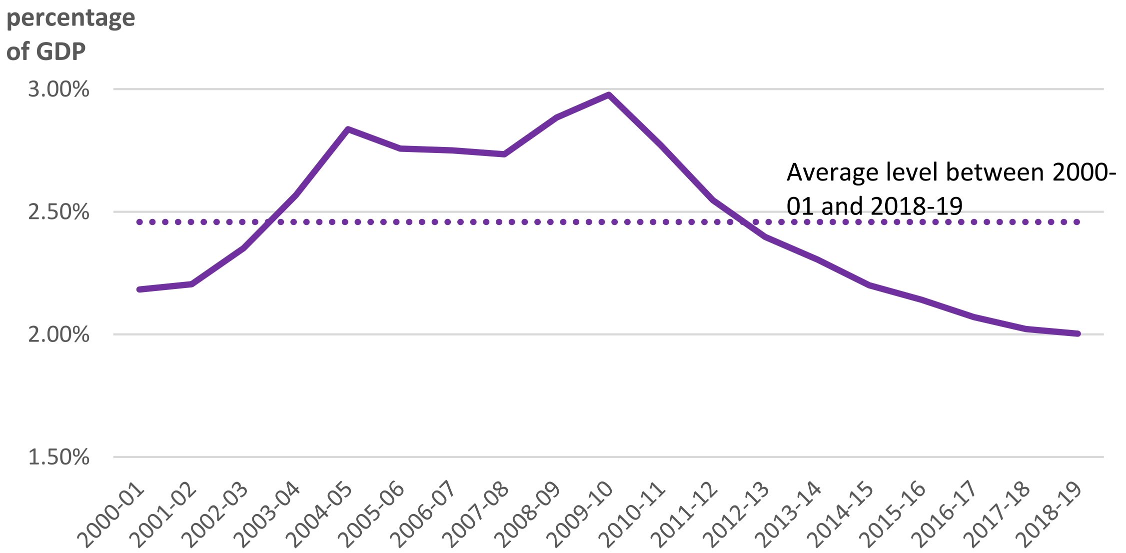
92. The LGA's submission estimated that the funding gap "was over £3 billion in 2019–20, and £8 billion in 2024–25".[128] The County Councils Network commissioned PwC to do independent analysis of the funding gap, which concluded that the funding gap was higher in the short term (£4.8 billion in 2019–20) than the LGA analysis, but slightly lower in the long term (£6.9 billion in 2024–25). For next year, 2020–21 both the LGA and PwC analysis assess that the funding gap will be around £5 billion (Figure 3). We asked the Minister for Local Government about these estimates. He said:

126 SIGOMA (FSR0074)
127 Manchester City Council (FSR0082)
128 Local Government Association (FSR0006)

> They are not exactly the same methodology. They end up in broadly similar places, and you can take from that what you want. We have absorbed those and are analysing them as we speak. As I said, I have sat down with both sets of people to understand them, but, of course, these are people who have a relatively detailed understanding of what is going on in the sector. It is right that their estimates are taken into account and put into the mix as we do ours as well.[129]

93. Another way of considering whether or not local government has enough funding is to look at the how its current expenditure level compares to past levels. As noted previously, spending levels have fallen significantly in real terms since 2010 however in the ten years before spending levels had risen. We asked Neil-Amin Smith of the IFS about current spending levels compared to 2000. He told us that spending in 2017–18 was higher in real terms than in had been in 2000–01, but he added that spending on local government as a proportion of national income (that is GDP) had fallen by 7% between 2000–01 and 2017–18.[130] In comparison, spending on education was slightly higher as a percentage of GDP in 2017–18 than it was in 2000–01[131] and public spending on the NHS as a percentage of GDP has increased significantly over the same period.[132] If local government spending in England in 2018–19 was at the level it had been in 2000–01, as a proportion of GDP, the sector would have needed around £4 billion of additional funding. If local government spending in 2018–19 had matched the average spending level (as a proportion of GDP) that it had been between 2000–01 and 2018–19 it would need more still (Figure 4).

Figure 4: English local government net service expenditure[133] as a proportion of GDP



Source: Scrutiny Unit analysis adapted from data in IFS written evidence (FSR0090), MHCLG, Local Authority revenue expenditure and financing England: 2018–19 budget, June 2018. HM Treasury, GDP deflators at market prices, and money GDP June 2019 (Quarterly National Accounts), June 2019.

129 Q174
130 Q3
131 House of Commons Library, Education spending in the UK, 10 May 2019
132 Nuffield Trust, 70 years of NHS spending, 21 March 2018
133 Local government net service expenditure in Figure 4 excludes spending on Education, Fire, Police and Public Health. Other adjustments have also been made to make the series comparable over time.

94. **There is a lack of clarity about what is expected of local government. This ambiguity makes it difficult to clearly determine how much additional funding the sector needs. Nevertheless, we agree with the IFS that local authorities need additional revenues to continue providing the services they currently do.**

95. ***MHCLG, working with HM Treasury and other departments, should clearly set out what tasks are expected of local government and how much funding it requires. It should draw upon the work of academics and other experts, such as the National Audit Office.***

96. ***If HM Treasury wants local government to continue providing the services it currently does it needs to provide local government with a significant real-terms increase in its spending power. To restore local government expenditure to the position it was, as a share of GDP, in 2000–01 would require an increase of around £4 billion—that is before taking into account the increased demands for services such as adult social care and children's services over the last twenty years.***

Fair Funding Review

97. In 2016 the Government launched the Fair Funding Review to look at and revise the "underlying assessment of needs" of local authorities and how funding is allocated between them. There have been a number of consultations since then and MHCLG has convened a series of joint working groups with the LGA. The Government intends to implement the Fair Funding Review as of April 2020 for the 2020–21 financial year.[134]

98. We asked the witnesses about the ongoing work of the Fair Funding Review. Councillor Carter of the County Councils Network told us that any new funding formula should be "needs-led, evidence-based and fair, as far as it can be, but keeping it transparent and simple." He told us that he was "encouraged by the work that has been done to date" and that "it is going in the right direction but needs a lot more work."[135] Councillor Fuller of the District Councils Network told the Committee "where we are at the moment, the formulae are substantially based on regressions, based on how much you had in the past. They were last really looked at in 2006–07". He noted that the economy and the populations of different areas have changed since then and so that "the new system, where the funding is allocated on a population basis and people consume services, seems to have some merit."[136]

99. We specifically asked the witnesses about the role of the deprivation of an area in determining their funding. Lord Porter told us that the "whole sector unanimously rejected taking deprivation out of the indices" and said he "would be very surprised if it does not feature in the Government's formula." Councillor Fuller considered that population was a bigger driver of cost than deprivation, so he thought that it was worthwhile giving a greater weighting to population size. The Minister for Local Government told us that they were trying to simplify the formula and had found that "deprivation was found not to be

134 House of Commons Library, Reviewing and reforming local government finance, 15 March 2019
135 Q94
136 Q94

a particularly significant variable." However, he added that deprivation does have a role in the formulas for services such as social care for children and adults which made up a large part of a local authorities funding.[137]

100. Other aspects of how the current distribution formula worked were critiqued in written evidence we received. Jim Vine, of the Department of Government at the University of Essex, told us that the current system included both equity objectives (ensuring that 'postcode lotteries' are minimised) and incentive objectives (allowing councils to keep some of their business rates growth). He explained that whatever the objectives of the formula were, it should not produce arbitrary results but had found that the current formula did. For example, when Wokingham's funding allocation of £4.44 million was removed from the calculations rather than the money being redistributed between some or all of the remaining authorities "we find large and unjustified changes to the allocations of many authorities—including losses as well as gains. The biggest increase sees the 'GLA–police' authority being allocated £84.6 million more, and the biggest loss is Surrey, seeing its allocation drop by £35.6 million (over half of its total allocation)." He considered more testing needed to be done to prevent such arbitrary results in the future. His submission also recommended that that any transitional measures must unwind over time rather than being in place indefinitely as had been the case previously.[138]

101. Witnesses discussed the financial pressures different types of councils were under. Rob Whiteman of CIPFA considered that "counties are under, in relative terms, the greatest pressure, when looking at their budgets at the moment." Professor Murphy agreed and pointed out that county councils had to some extent less flexibility as they delivered fewer services than unitary councils leaving them fewer other services to cut back on to keep social services going.[139] Lord Porter of the LGA said that he understood that counties were under pressure due to the demands of social services but he also considered that there were arguably more small unitary councils "that are close to the edge".[140] Frances Foster of SIGOMA pointed out that "unless the overall pot is adequate, we are still going to have all the issues we have now".[141] Councillor Carter agreed saying that the priority was addressing the funding gap, he told us "it is all about the size of the cake first, and how it is sliced and diced from there on is secondary".[142]

102. One criticism of the way that funding for councils is determined is that it is based on relative needs rather than any assessment of their absolute needs. Neil Amin-Smith from the IFS mentioned this and explained that the Government "do not attempt to make an assessment of how much councils need in total to provide a given level of services at a certain quality and at what efficiency they should be able to do that at". He considered that "it is a very difficult task to do that, but, especially given the spending review, it could be quite an important one to do"[143] Professor Travers made a similar point telling us that "new demands and burdens are costed out, but not the total of the existing ones". He said that this meant that unless there was additional funding in the system a new

137 Q201
138 Jim Vine (FSR0035)
139 Q11
140 Q90
141 Q94
142 Q96
143 Q5

formula "would simply mean taking money from some councils to give it to others".[144] The funding restraints that local government is under also makes any redistribution of funds more difficult. Rob Whiteman from CIPFA noted that:

> I can remember periods, as my colleagues will, when there were arguments about who would get the most growth from a redistribution system. Nonetheless, at the time the sector was getting more money. Things like fair funding or redistribution become all the more serious and under more scrutiny when they take place during an unprecedented period of cuts and rising service pressures.[145]

103. The business rates retention system, discussed in Chapter 3, is designed to incentivise local authorities to grow their business rates—these potential revenues must also be factored into allocations. Councillor Fuller told us there are "so many moving parts" noting that we have "spoken about the costs; what about the revenues, business rates retention, other taxes and pooling? … even before we look at business rates reset".[146] The IFS's submission considered that "the overarching question facing the Fair Funding Review is how to balance redistribution of funding according to need versus the desire to provide councils with financial incentives to tackle needs and boost growth."[147]

104. **Moving to new funding allocations will always create challenges—it is even more difficult during a time of financial restraint. This is another reason that providing additional funding for local government is so important—it will help to cushion the blow for those councils that lose out. The result of the Fair Funding Review is due to be implemented in 2020. However, this is now looking unlikely given that the timing of the Spending Review itself is in doubt.**

105. **We welcome the work that MHCLG has done to consult with the sector on the new funding formula. It is encouraging that the local government representatives we heard from are cautiously optimistic about the Fair Funding Review and new allocations. However, it is possible that everyone thinks they will gain from reform, which is almost certainly impossible. There will inevitably be winners and losers—providing transparency and clear explanation will be important in this regard.**

106. **There is a trade-off between redistribution and incentives. Full and very frequent redistribution of funding on the basis of needs and revenue-raising capacity would mean very little financial incentive for councils to tackle needs and boost their local tax. The choice over which to do should depend on judgements about the importance of redistribution and consistency in tax and spending (in which case grant funding would be preferable) relative to incentives and local discretion (which tax devolution supports). We believe that using the business rates system to try to achieve both objectives is unworkable, creating unnecessary bureaucracy and uncertainty for councils. A more simple system would allow for some limited gains to be made from incentives but for redistribution to be achieved through a separate grant.**

144 Q29
145 Q2
146 Q94
147 Institute for Fiscal Studies (FSR0090)

107. ***The workings of any new formula should be as transparent and understandable as possible. The formula should also be tested to ensure that any arbitrary and unjustified results are minimised.***

108. ***Councils need to be told as soon as possible what their new funding levels are for 2020–21. Delay is unreasonable and risks unnecessary reductions to spending in 2020–21.***

Increased integration and devolution

109. The importance of local government services to other parts of the public sector and the potential benefits from increased integration were highlighted in our inquiry. Lord Porter of the LGA told us that without certainty on social care funding the "Government will be building uncertainty into their own health service". He said that he had been to joint meetings with the Secretary of State for the Ministry of Housing, Communities and Local Government and the Secretary of State for Health and Social Care and said that "they do speak to each other; they do get it".[148] The written submission from NHS providers highlighted the benefits of a joined up approach: "it is worth noting however that DTOCs [Delayed Transfers of Care] decreased from a peak of 42,000 in 2016–17 as a result of increased integration between health and social care". The submission also explained that "local councils are responsible for a wide range of services contributing to the wider determinants of health including housing, support for vulnerable families and children, aspects of education, local transport and employment."[149] Jeanelle De Gruchy of the Association of Directors of Public Health made a similar point noting that councils were in effect doing prevention work through services such as housing and education.[150] We asked Ms De Grucy about the model in Greater Manchester—she explained that the local authority chief executive is also the CCG chief operating officer "so we are integrated in that way". However, she considered the "real challenge" to integration was "the NHS having the different mechanism for funding and performance".[151]

110. The link between housing and health was made by Councillor Fuller. He told us "having a clean environment and good housing is the biggest determinant of public health. The statutory housing services that the district councils do make an important contribution to reducing demand for the health service."[152] Another area where he considered there were potential overlaps and the opportunity for better integration was the benefit system. He explained "if you are on universal credit, often there is council tax support involved. Universal credit is run by DWP and council tax support is run by the local council, so there is a doubling up". He continued:

> If we have the aspiration to have the system around the individual, it would be much better for councils to operate a DWP system rather than sending people to DWP offices … We have more tools in our box than the DWP has. Calling for better integration and co-location is a much better outcome, leading to quite a material improvement in people's lives.[153]

148 Q106
149 NHS Providers (FSR0045)
150 Q151
151 Q153
152 Q100
153 Q103

The Minister for Local Government told us that he would be open to local authorities providing other services such as this as he had seen it work well with public health.[154]

111. Crisis, the homeless charity, considered that "using pooled budgets across a range of public bodies including for example, mental health services, criminal justice agencies, substance and alcohol treatment" would help "incentivise better integration" and "better coordinated services".[155] Dr Jonathan Carr-West thought that the top down centralised nature of much of government posed challenges for better collaboration. He said integration of services was "going against the grain" and difficult at a local level "because everyone is operating to different rules, to different targets and with different budgets".

112. **Increased integration of services at a local level can help to provide improved services and better outcomes. However, the current centralised nature of government and the different funding, budgeting and performance mechanisms of different parts of the public sector can make this difficult.**

113. ***MHCLG and the Department for Work and Pensions should consider creating a pilot scheme to see whether allowing local government employees to take more of a role in the benefits system would make the system more efficient and provide a better service for the public.***

114. Arguably the most straightforward way to ensure that services are better integrated at a local level is through greater devolution. Andrew Carter of Centre for Cities told us that in the ideal world "he would love to see the Treasury take an area-based approach to the spending review" as he considered that " it is only through an area-based approach that we will unlock the power and the returns of that integration."[156] Dr Jonathan Carr-West made a similar point explaining that "In the longer term … we need far more devolution … so we can do the joined-up preventive public services we need in order to manage these problems long term."[157] Rob Whiteman of CIPFA considered that "I suspect, in 20 or 30 years' time, we will aggregate the state in local areas, and we will understand how much is spent in an area on all services". However, he added "one day that is where we will be. I just do not know how we get there in the immediate future."[158]

115. The written submission from Professor Travers highlighted the centralised nature of revenue raising in the UK, providing a table which showed that the UK was an outlier compared to other countries (Figure 5). Other submissions also highlighted this issue. Centre for London contrasted London's reliance on central government for the majority of its revenues (70% of revenues) with other cities such as Paris (26%), New York (16.3%) and Tokyo (5.6%).[159]

154 Q237
155 Crisis (FSR0049)
156 Q140
157 Q140
158 Q30
159 Centre for London (FSR0042)

Figure 5: Taxation revenue available to sub-national governments as a % of GDP

	Local government	State/regional government	Local and state/ regional	Federal or central government	Social security	Total
Canada	2.8	12.1	14.9	12.7	2.9	30.5
France	5.8	0.0	5.8	15.1	24.0	45.0
Germany	3.0	8.0	11.0	11.5	13.9	36.5
Italy	7.1	0.0	7.1	23.6	13.1	43.9
Spain	3.2	4.5	7.7	13.8	11.1	32.7
Sweden	15.8	0.0	15.8	21.4	5.5	43.7
United Kingdom	1.6	0.0	1.6	24.9	6.2	32.9
United States	3.7	5.1	8.8	10.5	6.1	25.4
OECD total	3.9	4.9	8.8	20.4	8.4	34.2

Source: OECD Revenue Statistics

Source: Professor Tony Travers (FSR0111)

116. The call for increased devolution of tax raising powers appeared in numerous submissions that we received as part of the inquiry. Professor Colin Copus said that "a prolonged period of austerity makes it vital that a less centralised approach to local government finance is taken and that councils are able to replace lost central government financial support with locally raised taxation." The submission went on:

> Greater freedom in local taxation is necessary not only to reduce the centralised nature of government but to enable councils, that have detailed knowledge of local needs, to be able to finance not only service delivery, but also longer-term strategic policy for the development of their localities.[160]

Grant Thornton UK LLP's submission stated that "we need to move to a basis where councils are able to own their own future and support their communities." It considered that this required "fiscal devolution and choices over taxation".[161] Oldham Council called for increased devolution both in spending decisions and revenue raising powers. It said that "local areas need much greater control over resources to ensure that services are commissioned and delivered in an efficient and effective way to meet local priorities."[162]

117. **In the short-term local government needs increased support from central government, but over the medium to longer term other solutions are needed to ensure that local government is financially sustainable. There is now significant urgency in delivering a solid future for the funding of local government in England. A decade of expenditure reductions has both service-delivery and constitutional implications.**

118. **Devolution of more responsibilities and revenue-raising powers to local government has the potential to improve the financial sustainability of the sector and allow better and more integrated services for the public. It would also take the pressure**

160 Emeritus Professor Colin Copus (FSR0015)
161 Grant Thornton UK LLP (FSR0054)
162 Oldham Council (FSR0079)

off over-stretched Whitehall departments and ministers. However, it does present challenges—devolution of revenue raising is likely to result in increased divergence in the resources available to different areas and it may not be appropriate for some councils (for example those with a low population and tax base) to take on these risks. We intend to undertake a review of the progress of devolution in England which will examine a range of issues including access to new sources of revenue.

Conclusions and recommendations

Local government funding

1. Local government has coped with a prolonged period of real-terms spending reduction which is without parallel in modern times. This large fall in local authorities' resources has been primarily caused by very significant cuts in central government grants. (Paragraph 10)

2. The demand for costly and essential services which local authorities provide, such as adult and children's social care, has increased during this period of funding cuts. Some of these demands are being caused by failures or spending reductions in other parts of the Government, such as benefit reforms and changes. (Paragraph 18)

3. Local government must balance the books each year—the severe funding reductions it has faced has meant it has focused its spending on the acute pressures and has had no choice but to cut non-statutory services. Forcing local government to reduce resources for these services may cause higher costs in the future or just move pressures to other parts of the public sector. (Paragraph 25)

4. A number of local authorities have turned to commercial property investments funded with debt from the Public Works Loan Board to provide additional income. We welcome the tightening of the guidance to place more limitations on borrowing for commercial property acquisitions where such activity threatens financial sustainability of the local authority. (Paragraph 28)

5. Data available on the financial and operational performance of local authorities is limited—this makes it more difficult to assess whether spending cuts are being achieved through efficiency or deteriorating service standards. (Paragraph 36)

6. *We welcome the Government's decision to undertake a review of local government audit. The review should, among other issues, consider how auditors can be more effectively used to highlight risks to financial sustainability, operational performance and value for money of local authorities.* (Paragraph 37)

7. *The Government should develop a more regularised and consistent approach to the collection and monitoring of comparative data about councils' performance, efficiency and financial sustainability. The current situation means there can be no certainty about the state of individual councils or the sector as a whole.* (Paragraph 38)

Sustainability of the current system

8. The rising demands of social care (both for adults and children) are placing local government under increasing financial pressure. These services help some of the most vulnerable in society so must be properly funded. Governments have been reviewing the funding of adult social care for some years but without conclusion. Without a solution local government will continue to be forced to cut back on the other services that it provides. (Paragraph 45)

9. *Our recent report on adult social care highlighted the need for increased funding. We reiterate the recommendations we previously made—there is need for new revenue resources both at a local and national level. Local government must be given additional central government funding or powers to raise more revenue to deal with growing demand.* (Paragraph 46)

10. Providing a multi-year funding settlement has allowed councils to plan ahead. However, the four-year settlement is now coming to an end, with no plans for the next financial year. The resulting uncertainty is causing problems for local government. Without clarity about funding in 2020 some local authorities will need to prepare for the worst, making decisions which may unnecessarily reduce spending and represent poor value for money in the longer term. (Paragraph 53)

11. *Ideally local authorities would already know their level of funding for 2020–21 to allow them to effectively plan for the coming year. We recommend that MHCLG and HM Treasury provide a multi-year settlement for local government which runs for one year beyond the Spending Review period—the same approach that is currently used for Departmental capital budgets. In the short-term the Government should provide assurance on 2020–21 funding as soon as possible—for example by stating that no council will receive less in real terms spending power in 2020–21 than they did in 2019–20. Such a commitment should apply to services not covered by any ring-fenced resources for adult social care.* (Paragraph 54)

12. *It would be better to adequately and sustainably fund councils and to rely less on one-off pots of cash. If necessary, any additional funding should be distributed as quickly and efficiently as possible with any bidding process kept to a minimum.* (Paragraph 55)

13. We welcome policies which allow local government to have more control of the revenue it raises and how it is spent. However, the business rate retention system is too complex and lacks transparency—the system attempts to create incentives for growth whilst also redistributing revenues according to need. The tax is already coming under pressure from changes in the economy and the Treasury Committee is currently conducting an inquiry on the tax and its impact on business. Calls for reform are growing louder—it is hard to see how it will endure over the long term. (Paragraph 63)

14. *MHCLG needs to reform and make substantial changes to the business rate retention system. The Government should consider making the system simpler by bringing back the Revenue Support Grant to redistribute to councils in need rather than trying to do this through an increasingly complex business rates retention system. The Government also needs to start considering alternatives to business rates as a revenue stream for local government, given the risks to this tax over the long-term.* (Paragraph 64)

15. Council tax is a regressive tax which has become disconnected from property values. All houses built over the last 25 years still have to be valued by the assessor as to what the value of the property would have been in 1991. This cannot continue. There needs to be a review of council tax including revaluation, the number of bands and the ratio between bands. Some form of revaluation of bands to reflect prices today is required. There is also potential for raising more sums from high value properties by increasing the number of bands. (Paragraph 73)

16. *As part of a review of council tax, the Government should consider the case for creating new council tax bands at the top and bottom of the scale. We will return to this in our progress on devolution in England inquiry.* (Paragraph 74)

17. *A revaluation for council tax purposes is long overdue. The Government should hold a review into how a revaluation could be implemented without dramatic increases for individual households. Any revaluation should be revenue neutral at the national level. Revaluation also does not mean that significant changes in council tax must be put in place immediately, it could be phased in over time. We recognise there will be effects on individual authorities and adjustments to the equalisation system will be needed to deal with this. Under any revaluation the bands will need to be adjusted to reflect changes in property prices over time.* (Paragraph 75)

18. We believe that, in general, the level of fees is best decided locally. Central government should not dictate fees for services, such as planning, at a level that means councils are unable to recover their costs. (Paragraph 79)

19. Councils are turning to fees and charges to generate income. This is a logical consequence of significantly reduced central government support—increasing fees is one of the few ways councils can generate income, given council tax rises are restricted. Nevertheless, we have concerns about higher fees and the introduction of new user charges for essential services. Council taxpayers may feel like they are paying twice for services and fees are usually unrelated to the ability of a user to pay. There may also be unintended consequences—for example high waste disposal fees may encourage fly-tipping. (Paragraph 80)

20. Increases in the National Living Wage and other new responsibilities for employers such as the Apprenticeship Levy can result in significant cost increases for local government. Councils ability to raise revenue to pay for these increased costs is extremely limited particularly in areas with a low council tax base. Increases in the pay for the low paid are important. However, while central government can benefit financially through lower benefit payments and higher tax revenues central government provides no additional funding for local government to recognise these above inflation cost increases. (Paragraph 85)

21. When the MHCLG sets out the spending power increases of local government it doesn't provide any context for the spending pressures that local government is under. Therefore, it is difficult to judge if the changes in spending power represent real-terms increases when taking account of increased costs of and demand for services. (Paragraph 86)

22. *The Minister for Local Government told us that MHCLG produces figures on the spending inflation levels of different local government services. It should publish past assessments (from 2015 onwards) on service cost inflation. It should also publish these figures and an average 'local government inflation' figure alongside other documents relating to the annual local government finance settlement each year. This will allow parliament and the public to assess whether councils are receiving real terms increases in their spending power or not. The Office for Budget Responsibility could have a role in overseeing the quality of such a process.* (Paragraph 87)

Spending Review and future reform

23. There is a lack of clarity about what is expected of local government. This ambiguity makes it difficult to clearly determine how much additional funding the sector needs. Nevertheless, we agree with the IFS that local authorities need additional revenues to continue providing the services they currently do. (Paragraph 94)

24. *MHCLG, working with HM Treasury and other departments, should clearly set out what tasks are expected of local government and how much funding it requires. It should draw upon the work of academics and other experts, such as the National Audit Office.* (Paragraph 95)

25. *If HM Treasury wants local government to continue providing the services it currently does it needs to provide local government with a significant real-terms increase in its spending power. To restore local government expenditure to the position it was, as a share of GDP, in 2000–01 would require an increase of around £4 billion—that is before taking into account the increased demands for services such as adult social care and children's services over the last twenty years.* (Paragraph 96)

26. Moving to new funding allocations will always create challenges—it is even more difficult during a time of financial restraint. This is another reason that providing additional funding for local government is so important—it will help to cushion the blow for those councils that lose out. The result of the Fair Funding Review is due to be implemented in 2020. However, this is now looking unlikely given that the timing of the Spending Review itself is in doubt. (Paragraph 104)

27. We welcome the work that MHCLG has done to consult with the sector on the new funding formula. It is encouraging that the local government representatives we heard from are cautiously optimistic about the Fair Funding Review and new allocations. However, it is possible that everyone thinks they will gain from reform, which is almost certainly impossible. There will inevitably be winners and losers—providing transparency and clear explanation will be important in this regard. (Paragraph 105)

28. There is a trade-off between redistribution and incentives. Full and very frequent redistribution of funding on the basis of needs and revenue-raising capacity would mean very little financial incentive for councils to tackle needs and boost their local tax. The choice over which to do should depend on judgements about the importance of redistribution and consistency in tax and spending (in which case grant funding would be preferable) relative to incentives and local discretion (which tax devolution supports). We believe that using the business rates system to try to achieve both objectives is unworkable, creating unnecessary bureaucracy and uncertainty for councils. A more simple system would allow for some limited gains to be made from incentives but for redistribution to be achieved through a separate grant. (Paragraph 106)

29. *The workings of any new formula should be as transparent and understandable as possible. The formula should also be tested to ensure that any arbitrary and unjustified results are minimised.* (Paragraph 107)

30. *Councils need to be told as soon as possible what their new funding levels are for 2020–21. Delay is unreasonable and risks unnecessary reductions to spending in 2020–21.* (Paragraph 108)

31. Increased integration of services at a local level can help to provide improved services and better outcomes. However, the current centralised nature of government and the different funding, budgeting and performance mechanisms of different parts of the public sector can make this difficult. (Paragraph 112)

32. *MHCLG and the Department for Work and Pensions should consider creating a pilot scheme to see whether allowing local government employees to take more of a role in the benefits system would make the system more efficient and provide a better service for the public.* (Paragraph 113)

33. In the short-term local government needs increased support from central government, but over the medium to longer term other solutions are needed to ensure that local government is financially sustainable. There is now significant urgency in delivering a solid future for the funding of local government in England. A decade of expenditure reductions has both service-delivery and constitutional implications. (Paragraph 117)

34. Devolution of more responsibilities and revenue-raising powers to local government has the potential to improve the financial sustainability of the sector and allow better and more integrated services for the public. It would also take the pressure off over-stretched Whitehall departments and ministers. However, it does present challenges—devolution of revenue raising is likely to result in increased divergence in the resources available to different areas and it may not be appropriate for some councils (for example those with a low population and tax base) to take on these risks. We intend to undertake a review of the progress of devolution in England which will examine a range of issues including access to new sources of revenue. (Paragraph 118)

Formal minutes

Monday 22 July 2019

Members present:

Mr Clive Betts, in the Chair

Bob Blackman	Teresa Pearce
Tanmanjeet Singh Dhesi	Mr Mark Prisk
Helen Hayes	Mary Robinson
Kevin Hollinrake	Mohammed Yasin

Draft Report (*Local government finance and the 2019 Spending Review*) proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 118 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Tuesday 3 September at 3.30 p.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 13 May 2019

Professor Tony Travers, London School of Economics, **Neil Amin-Smith**, Institute of Fiscal Studies, **Professor Pete Murphy**, Nottingham Trent University and **Rob Whiteman**, Chartered Institute of Public Finance and Accountancy	Q1–33
Sir Amyas Morse, Comptroller and Auditor General, National Audit Office	Q34–80

Tuesday 4 June 2019

Lord Porter of Spalding, Chair, Local Government Association, **Cllr Paul Carter**, Chair, County Councils Network, **Cllr John Fuller**, Chair, District Councils Network, and **Frances Foster**, Treasurer, SIGOMA (Special Interest Group of Municipal Authorities)	Q81–124
Dr Jonathan Carr-West, CEO, Local Government Information Unit and **Andrew Carter**, CEO, Centre for Cities	Q125–140
Alison Cox, Director of Cancer Prevention, Cancer Research UK, **Jeanelle de Gruchy**, President, Association of Directors of Public Health, and **David Buck**, The King's Fund	Q141–153

Tuesday 18 June 2019

Rishi Sunak MP, Minister for Local Government, Ministry of Housing, Communities and Local Government	Q154–250

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

FSR numbers are generated by the evidence processing system and so may not be complete.

1 Action for Children (FSR0033)

2 Andover Town Council (FSR0007)

3 Association of County Chief Executives (FSR0076)

4 Association of Directors of Public Health (FSR0086)

5 Association of Directors of Public Health, Cancer Research UK, Mind and Terrence Higgins Trust (FSR0066)

6 Birmingham City Council (FSR0062)

7 Breckland Council (FSR0064)

8 The British Academy (FSR0110)

9 British Association of Social Workers (FSR0100)

10 British Property Federation (FSR0011)

11 Broadland District Council & South Norfolk Council (FSR0105)

12 The Bureau of Investigative Journalism (FSR0014)

13 Cambridgeshire County Council (FSR0096)

14 Cancer Research UK (FSR0080)

15 Care England (FSR0050)

16 Centre for Cities (FSR0005)

17 Centre for London (FSR0042)

18 Centre for Urban and Regional Development Studies, Newcastle University (FSR0001)

19 Centrepoint (FSR0087)

20 Chartered Institute for Archaeologists (FSR0040)

21 The Children's Society (FSR0089)

22 CIPFA (FSR0092)

23 City of Bradford MDC (FSR0032)

24 Cleveland Fire Authority (FSR0013)

25 Colchester Borough Council (FSR0051)

26 Copus, Emeritus Professor Colin (FSR0015)

27 Core Cities UK (FSR0106)

28 Cornwall Council (FSR0058)

29 Council of the Isles of Scilly (FSR0031)

30 County Councils Network (FSR0009)

31 Crisis (FSR0049)

32 District Councils' Network (FSR0107)

33 Dr Peter Eckersley, Prof Pete Murphy and Prof Laurence Ferry (FSR0010)

34 East Sussex County Council (FSR0084)
35 Essex County Council (FSR0061)
36 Fenland District Council (FSR0099)
37 Gateshead Council (FSR0088)
38 Grant Thornton UK LLP (FSR0054)
39 Greater Manchester Combined Authority (FSR0034)
40 Groundwork (FSR0108)
41 Hampshire County Council (FSR0018)
42 Hartlepool Borough Council (FSR0024)
43 Hertfordshire County Council (FSR0085)
44 Hewitt, Mr John (FSR0083)
45 Highbury Group on Housing Delivery (FSR0073)
46 Homeless Link (FSR0113)
47 Institute for Fiscal Studies (FSR0090)
48 Institute for Government (FSR0022)
49 Institute of Revenues, Rating and Valuation (FSR0095)
50 Kent County Council (FSR0019)
51 Kettering Borough Council (FSR0036)
52 Knowsley MBC (FSR0070)
53 Lancashire County Council (FSR0077)
54 Leeds City Council (FSR0048)
55 Leicestershire County Council (FSR0026)
56 Lichfield District Council (FSR0008)
57 Liverpool City Region (FSR0072)
58 Local Government Association (FSR0006)
59 Local Government Information Unit (LGiU) (FSR0046)
60 Local Government Technical Advisors Group (FSR0030)
61 London Borough of Camden (FSR0115)
62 London Councils (FSR0065)
63 London Councils (FSR0117)
64 Manchester City Council (FSR0082)
65 MHCLG (FSR0016)
66 Muldoon-Smith, Dr Kevin (FSR0109)
67 NALC (FSR0025)
68 National Audit Office (FSR0112)
69 National Trust (FSR0069)
70 NAVCA (FSR0059)
71 NCVO, NAVCA, Charity Finance Group and Lloyds Bank Foundation (FSR0102)

72 Newcastle City Council (FSR0078)

73 NHS Providers (FSR0045)

74 Norfolk County Council (FSR0017)

75 North East Lincolnshire Council (FSR0038)

76 North Norfolk District Council (FSR0103)

77 North Yorkshire County Council (FSR0027)

78 Northamptonshire County Council (FSR0098)

79 Oldham Council (FSR0079)

80 Peterborough City Council (FSR0081)

81 Pixel Financial Management (FSR0047)

82 Plymouth City Council (FSR0101)

83 Redcar & Cleveland Council (FSR0057)

84 Reducing the Deficit Ltd (FSR0114)

85 Research for Action (FSR0056)

86 Rethink Mental Illness (FSR0041)

87 Rotherham MBC (FSR0060)

88 Rural Services Network (FSR0012)

89 Rutland County Council (FSR0002)

90 Salford City Council (FSR0071)

91 The Salvation Army (FSR0094)

92 Selby District Council (FSR0093)

93 Sheffield City Council (FSR0044)

94 SIGOMA (FSR0074)

95 Society of County Treasurers (FSR0020)

96 Society of District Council Treasurers (FSR0029)

97 Somerset County Council (FSR0063)

98 South East England Councils (FSR0037)

99 South Holland District Council (FSR0075)

100 St Mungo’s (FSR0068)

101 St. Helens Council (FSR0043)

102 Suffolk Local Authorities (FSR0023)

103 Surrey County Council (FSR0052)

104 Teignbridge District Council (FSR0003)

105 Terrence Higgins Trust (FSR0028)

106 Trafford Council (FSR0004)

107 Travers, Professor Tony (FSR0111)

108 UNISON (FSR0039)

109 Various (FSR0067)

110 Vine, Jim (FSR0035)

111 West Sussex County Council (FSR0055)

112 Winchester City Council (FSR0021)

113 Woods, Paul (FSR0053)

114 YoungMinds (FSR0116)

115 Youth Justice Board (FSR0097)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Effectiveness of local authority overview and scrutiny committees	HC 369 (Cm 9569)
Second Report	Housing for older people	HC 370 (Cm 9692)
Third Report	Pre-legislative scrutiny of the draft Tenant Fees Bill version	HC 583 (Cm 9610)
Fourth Report	Private rented sector	HC 440 (Cm 9639)
Fifth Report	Business rates retention	HC 552 (Cm 9686)
Sixth Report	Pre-legislative scrutiny of the draft Non-Domestic Rating (Property in Common Occupation) Bill	HC 583 (Cm 9633)
Seventh Report	Long-term funding of adult social care: First Joint Report of the Health and Social Care and Housing, Communities and Local Government Committees	HC 768
Eighth Report	Planning guidance on fracking	HC 767
Ninth Report	Independent review of building regulations and fire safety: next steps	HC 555 (Cm 9706)
Tenth Report	Land Value Capture	HC 766 (Cm 9734)
Eleventh Report	High streets and town centres in 2030	HC 1010 (CP 84)
Twelfth Report	Leasehold Reform	HC 1468
Thirteenth Report	Brexit and local government	HC 493 (CP 109)
Fourteenth Report	Funding of local authorities' children's services	HC 1638
Fifteenth Report	Modern Methods of Construction	HC 1831
Sixteenth Report	Housing Ombudsman pre-appointment hearing	HC 817
Seventeenth Report	Building regulations and fire safety: consultation and connected issues	HC 2546