

Housing, Communities and Local Government Committee

Oral evidence: The spending review and local government finance, HC 924

Thursday 12 November 2020

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Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Ben Everitt; Rachel Hopkins; Ian Levy; Mary Robinson; Mohammad Yasin.

Questions 1 - 44

Witnesses

I: Councillor James Jamieson, Chair, Local Government Association; Rob Whiteman, CEO, Chartered Institute of Public Finance and Accountancy; and David Phillips, Associate Director, Institute for Fiscal Studies.

II: Councillor David Williams, Chair, County Councils Network; Councillor Sharon Taylor, Leader of Stevenage Borough Council and Lead Member for Sustainable Finance and Workforce, District Councils Network; and Councillor Sir Stephen Houghton, Special Interest Group of Municipal Authorities.

Examination of Witnesses

Witnesses: James Jamieson, Rob Whiteman and David Phillips.

Chair: Welcome, everyone, to this afternoon's session of the Housing, Communities and Local Government Select Committee. We have a one-off evidence session on the spending review and local government finance. This is a pretty important issue not merely for local councils but for all the people in the country and all the residents who rely on their local authorities to deliver services that they would normally provide, with an extra reliance on services related to Covid as well, all of which are demanding extra spending. Are councils going to be able to afford that? Those are some of the issues we want to pursue this afternoon.

To do that, we have two panels of witnesses to give evidence to us. I will introduce the first of those panels in a minute but, before I do, could I ask Committee members to put on record any interests they may have that may be particularly relevant to this inquiry? I am a vice-president of



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the Local Government Association.

Mary Robinson: I employ a councillor in my staff team.

Rachel Hopkins: I am a councillor in Luton and a new vice-president of the LGA.

Bob Blackman: I am a vice-president of the LGA and I employ a councillor in my office.

Ian Byrne: I am still a sitting councillor in Liverpool.

Q1 **Chair:** Thank you very much to our three panel members. Could I ask our first panel to introduce themselves?

Councillor Jamieson: I am James Jamieson. I am chairman of the Local Government Association and also leader of Central Bedfordshire Council.

Rob Whiteman: I am Rob Whiteman. I am chief executive of CIPFA, the Chartered Institute of Public Finance and Accountancy.

David Phillips: I am David Phillips. I am an associate director of the IFS and I lead our work on local and devolved Government finance.

Q2 **Chair:** If members asking questions can indicate which of our panel members they would like to answer the question, that is fine, but then all of you can come in in due course. If you agree with what someone else has said, please just say so; it does not need a two or three-minute repetition. We can then get through all the questions we need to pursue. Thank you very much.

I will come to Councillor Jamieson first, representing all local authorities in the country through the Local Government Association. What is the LGA's view currently of the financial position facing councils? There were difficult financial situations before Covid came along. I expect that they have become even more challenging now.

Councillor Jamieson: If I am being polite about it, I would say that the situation is tough or challenging, as you alluded to. Clearly, councils have suffered a reduction in income over several years. There had been a reduction of about £15 billion in core funding before we hit this crisis, so we were all already in a tough spot. We delivered a lot of efficiencies. The well-renowned low-hanging fruit had long gone, and then we were hit with this major crisis, which resulted in some very significant additional costs to local government, for instance in social care. Clearly, our care providers' costs went up and, along with Government guidance, we have been paying higher levels of fees; we have had to pay for more services. Similarly, costs have gone up in children's social care. We have more care being needed. You can also look at more universal services such as leisure centres, where there has been a significant loss of income, purely because, if they are shut, they are not generating income. There are also things like homelessness demand. We have seen a really big pressure on that.



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If you look at the figures, in the first six months of the year, there was something like a £3.6 billion increase in costs and something like a £2.2 billion loss of income from, as I say, leisure centres, fees, charges and also things like car parking. That excludes council tax. For the full year, we believe that will be around £4.4 billion of additional costs and £2.8 billion of loss of income, so something around £8 billion.

Government have stepped up to the plate quite significantly. They have given us, in total, about £6 billion through a variety of schemes to cover this year. There is also a promise to match some of that lost income. We estimate that would be around £1 billion, but that will still give a shortfall this year of £1 billion on what was already a very tight situation. To be fair to Government, one has to recognise that, if somebody had told me in April that we were going to get £6 billion extra out of Government, I would not have believed them, but the reality is that that £6 billion has not fully covered our costs.

The thing that is really worrying us is next year. We have no sight on next year. Looking forward to next year, even if the vaccine is successful, we are not going to see an overnight turning around of our cost base. It will largely be what it has been this year. In the same way, we are not going to see a recovery of car parking income fees and charges. On the cost and loss of income side, it is not going to be that dissimilar to this year. On top of that, because of the peculiarities of local government finance, we will also have to absorb lower council tax income and lower business rates income. We are really worried about next year, about which we have no certainty at all.

Q3 Chair: We are going to explore, as you might expect, the issues of how Government support has been effective or not and the issues about extra spending and loss of income that you have to deal with. We will pick all those issues up. In a nutshell, all of this is going to mean a significantly different ask when you put in your bid for the spending review, or have you already put in your bid to the spending review?

Councillor Jamieson: We have put a bid in to the spending review and, yes, we have a quite significant but very necessary ask for next year. It is made up of various things, including about £3.1 billion in loss of council tax and business rates, and about £5 billion of cost pressures compared to 2019-20 based on IFS figures, of which £1.3 billion will be ongoing Covid pressure. That gives us a £4 billion funding gap, assuming that grants increase in line with inflation and that council tax goes up at 2%. We then have £1.8 billion of additional quantifiable pressures to stabilise the sector. We also want to do things like early intervention. I can go through those figures in more detail but there is a substantial ask that we have provided and that I believe is also in our written submission to you.

Q4 Chair: You have all of these pressures on top of the expected shortfall of around £5 billion that you were talking to us about last year, pre-Covid.

Councillor Jamieson: Yes.



Q5 Chair: Can I go on to the other witnesses to comment on those general issues? We will begin with Rob Whiteman. Would you also like to comment on the position of individual authorities? You have made changes to the section 114 guidance, which is where local authorities get to when they really cannot meet their bills, in layperson's language. There is some feeling that you have relaxed the rules a bit and let local authorities off the hook a bit?

Rob Whiteman: In terms of the general outlook, I concur with what Councillor Jamieson has just said. There is a short-term issue in that all the costs and loss of income associated with Covid have not been covered by the Government, which will create some short-term pressures. It is really the medium-term pressures that are the more significant. Covid is not only a short-term issue. In financial terms, it has very considerable medium-term implications. The world is going to look like a different place post Covid: councils will be bearing more costs; there will be more use of PPE; and the market for social care will look different, including with pay rates.

At the same time, the loss of income for councils on fees and charges does not look like a temporary measure. Before we came into Covid, it looked like the local government finance system was going to be anchored around retaining more business rates and then having a fair funding formula based around that. That does not really look like an anchor moving forward. There will be less business rates collected when Covid is over on an ongoing basis than before it. Clearly, the council tax base is also affected. It is very easy to focus on short-term issues. As Councillor Jamieson said, for example, the 75% income guarantee on fees and charges on its own still leaves an £800 million gap for councils.

I am briefed by councils that most will get through this year—they are waiting to see what happens in the comprehensive spending review—but it is next year that really creates some difficulty. I will use that as a segue to your questions about section 114. For the Committee's benefit, a council has a legal duty to balance its budget. That is not only for the current year but it has a legal duty to balance future-year budgets. To put that in another cut, you can overspend your budget this year as long as you have revenue reserves to pay for it. You can spend more or less across a three or four-year period but, if you are going to overspend any individual year's budget, you need to have revenue reserves to cover it. To put it another way, you can only borrow money to fund capital. You cannot borrow money to fund revenue unless you get a special dispensation from the Government to do so.

There are some councils that are in difficulty this year. Pending the comprehensive spending review, I know that a number are in conversations with MHCLG about whether a capitalisation order could allow for what would normally be revenue expenditure to be capitalised as a one-off measure in order to balance the books for this year, and I



think there will be some of those. The bigger problem facing the sector, and where it feels at a tipping point, is in relation to next year's budget.

If a council cannot balance any individual year, the chief financial officer—the section 151 officer—must serve a notice informing the council that it is not meeting its legal duty to balance the books. This is quite a strict regime compared to other parts of the public sector and, in a way, it is quite a tough regime for local government, but it is probably one of the reasons that the sector has such a strong track record of really good financial management compared to the rest of the public sector.

I would stress that the CFO is under a personal legal duty to serve this notice. It is not easy to serve a notice against one's own employer but, by law, the CFO must be an accountant with one of the chartered bodies and, should they fail in their professional duty to serve a section 114 notice, they will face regulatory or disciplinary action by their institute. They could then lose their licence and not be able to practise anymore, so this is a big deal for CFOs. If they feel that a section 114 notice is needed, they must serve it.

CIPFA has amended its guidance this year. That is not letting people off the hook; it is trying to be realistic that there will be many local authorities who had resilient budgets and could balance the books save for Covid-19. At the moment, we are waiting to see the extent to which all Covid-19 pressures are covered by Government. We have said, "If you are in a 114 position because of Covid-19, we recognise that serving the notice during a pandemic could be difficult," because it then places a statutory freeze on all expenditure for 21 days until the full council responds to the notice. Freezing expenditure in the middle of a pandemic, when emergency action is having to be taken, is not attractive. In those circumstances, we have advised CFOs to inform the cabinet and the chief executive that the council is in a 114 position but not to formally serve the notice publicly requiring a freeze on expenditure and a council meeting within 21 days. Instead, they should speak to MHCLG to see if temporary funding is available to help the council meet those pressures.

We have given quite clear guidance that this only applies to Covid pressures. In other words, if you look at the section 114 notice that was issued at the London Borough of Croydon yesterday, they make clear that they have received advice from CIPFA saying, "If your issues are more fundamental and more deep-rooted than Covid, and that you cannot balance the books anyway, even if you put Covid to one side, you must issue a 114 notice." We are getting to a tipping point where a number of councils are facing that position in respect of next year as they try to put their budgets together in the autumn. I hope that answers your question.

Q6 **Chair:** It does partly. It depends on the next question: what are Covid issues? What if you have an investment in property that is suddenly worth a lot less and the income stream from it has dried up?

Rob Whiteman: I would say that is not a Covid issue.



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Chair: Even though Covid might have caused the problems with the building. I do not know. That is what I am trying to get at.

Rob Whiteman: I would say that is not a Covid issue. That is more deep-rooted. Where we would say it is a Covid issue is if you are spending more on PPE and shielding and other services than you presently receive back from Government. If the loss of income on fees and charges means that you are waiting for the CSR to see what you are going to get back, it is reasonable to defer the notice.

Q7 **Chair:** That is a helpful explanation, thank you. David Phillips, do you want to come in and talk about the overall situation?

David Phillips: Following on from what Councillor Jamieson was saying, our figures are the baseline figures that the LGA uses. It then looks at additional pressures or additional areas where it thinks local government can do more and needs to do more. Our figures are the basis for the LGA. As with them, we use the returns that councils have sent to MHCLG and that gives us a forecast spending increase of £5.4 billion, a loss of income from sales, fees, charges and commercial income of about £2.8 billion—so an £8 billion pressure—and then about £7 billion-worth of funding via various grants and the sales, fees and charges compensation scheme.

We think that this year there is a gap of about £1 billion based on the current forecasts. It is very important to emphasise that these are forecasts and that they are uncertain. That is for two reasons. One is that, as the different councils filled in the returns, it is quite clear that they made different decisions and had different interpretations of what might happen to spending needs, as well as different interpretations of the instructions from MHCLG. That means that it is quite difficult to get overall figures from the returns themselves. Also, the current returns we have were filled in back in September, and since then we have seen a big surge in Covid cases and a second national lockdown, so some of the pressures might be higher than expected. The figures that councils have put in imply that the pressures in the second half of the year will be less than half as high as in the first half of the year. That might not be the case now with the second lockdown, so there is uncertainty and an upside risk that pressures could be higher than expected.

Looking ahead to future years, there was already going to be a likely shortfall, even in the absence of Covid, given the underlying demand and cost pressures outpacing the revenue that you can reasonably get from council tax. As Councillor Jamieson and Rob Whiteman were saying, there are reasons to expect that those pressures would have increased as a result of Covid.

Some of the income losses are likely to persist, particularly with parking income if we see changes in shopping habits and working habits. Some of the spending pressures are likely to persist and new spending pressures could arise. There is pretty good evidence that economic downturns and recessions are associated, a couple of years later, with more ill health,



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family problems and things like that. Those pressures are likely to increase.

The last thing I would say, which might be a nice segue into the next questions, is that our analysis suggests that the degree of pressures and the degree of unmet needs vary quite substantially across councils. That is because different councils rely to very different extents on the sorts of revenue streams that have been particularly hard hit, such as sales, fees, charges and commercial income. They also have different demographic profiles, so they are likely to be differently affected by the increases in costs and demands as well.

These different effects across the country make it quite a challenge for the Government to target all the funding up front. In effect, if you try to use a general formula to target funding when people are being affected very differently, you can end up giving not enough to some councils and relatively too much to others. That is why measures like the compensation scheme and giving councils more flexibility are an important part of addressing this crisis as well.

Chair: Thank you very much. We will move on. As I say, we have three elements to the questions now, looking at what help Government have been able to give and whether it is the right sort; the issue of spending pressures that have come out of Covid; and the issue of loss of income.

Q8 **Ian Byrne:** James, what is your assessment of the Government's financial support to date during the crisis?

Councillor Jamieson: I will go back to my first answer. We clearly have a shortfall in support for this year and, as both David and Rob outlined, that shortfall for this year is around £1 billion. As David was outlining, there is a bit of variance across the country depending on the mix of a particular council.

I cannot be anything other than thankful that the Government have given us an extra £6 billion plus £1 billion for potential income losses, but that is still £1 billion short. Yes, a great job has been done but it is actually not quite enough. As I said, my really big deep concern is next year, as the other witnesses were saying. We are currently planning our budgets for next year. As Rob was saying, we have to balance our budgets. That means that we are making decisions now without any certainty of funding. That is really quite worrying because decisions will be made.

I am slightly less concerned about section 114 notices. I am worried about some very severe cuts to services because all councils are responsible and, if they have to balance their budgets, they will make those difficult decisions, because it is far better to make them in a structured way in advance than to wait until you have to do a 114 notice, which has all sorts of complications that we really do not want to get to. There is a real risk that, later this autumn, councils will be making decisions, which, quite frankly, they do not want to make and which are



quite unpalatable, in order to balance the books, unless we get certainty over adequate funding for next year.

Ian Byrne: That is a good answer. From a Liverpool perspective, there is nothing more to cut, and the Mayor has come out and said that, so it will be a very interesting conversation with the Treasury and MHCLG.

Rob Whiteman: Let us juxtapose it with, say, health. Good luck to the NHS and I am not being critical here but, on the whole, trusts have been told, "Tell us what your spending pressures are that have been created by Covid and here is the money," and they get it immediately back. Councils have been given a mixed message of, "We have to do a bit of burden-sharing but then we will cover your Covid cost."

The support from Government is very welcome and has been very significant. MHCLG has tried its best but it has been drip by drip. Clearly, we worry that the Government have bigger spending priorities in their own terms. Looking at the comprehensive spending review, there is a lot of national debate about health spending, defence spending and education spending. We worry that local government gets forgotten with this drip-by-drip approach; we get money after the others have been settled. We lay out the considerable problems it is causing. As Councillor Jamieson said, councils are having to make some pretty unattractive cuts because they will balance the books, but it will genuinely lead to a loss of service. We are grateful for the help we have received from Government but, when you compare it to some other bits of the state, we have been quite harshly treated and been given some mixed messages.

Q9 **Ian Byrne:** That is a fair assessment. To come back on that point, would you think that the value of local government has been seen during the pandemic? Do you think there may be a greater appreciation from central Government about how important local government is and can be? A great example is what we are seeing roll out in Liverpool at the moment. The testing has been devolved down to the council and to local health authorities. It looks like it has been a resounding success, certainly on the ground. It has been quite seamless. Congratulations to everybody involved in Liverpool. Is there a lesson to be learned there, and will the Government learn that lesson?

Councillor Jamieson: Yes, absolutely. This crisis has demonstrated time and time again that local government can get things done and get them done faster than something from the national level. It is incredibly difficult to pull levers in Whitehall and impact something in Knowsley or somewhere else in Liverpool, whereas the people on the ground, who are your local council, can get those things done. They can develop a local solution quickly and they can find resources. We have seen that time and time again, whether that has been around shielding, delivering local PPE, getting the homeless off the street, helping to get our frail and elderly residents quickly out of hospitals, supporting the economy or getting grants out. Time and time again, we have delivered and we have delivered more effectively than other parts of the public sector.



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One of the things that I keep telling the Chancellor, and, frankly, anyone else who will listen, is, "If we are in a bit of a financial crisis centrally with Government, why do you not pass the funding and the responsibilities to local government?" We will spend that money much more effectively and efficiently and deliver better results. The more that we become a decentralised economy, the better we will be in terms of delivering for our residents. It definitely has demonstrated that.

It has also caused the public sector to work better in the local area. We have been working with our schools, keeping those schools open during lockdown and switching children between schools so that they could stay in education; these are things that just would not have happened. I remember talking to Richard Leese about the health service in Manchester. He said, "I have been trying for two years for them to devolve some stuff and to talk to each other, and they said it was impossible, and then all of a sudden they did it overnight because of this crisis." This crisis has demonstrated the value of local government.

I also want to come back on another point, which I think is really important when we talk about looking at the future. Some of the most valuable stuff we do is preventative work, such as early intervention with children and families and supporting the elderly so that they do not have to go into hospital. We have seen that be gradually eroded, which is building up problems for the future, not just for local government but for the NHS, the police and the Home Office. Investing in those sorts of areas in local government will save money in other parts of Government and will more than pay for itself. It is a false economy to cut those services.

If you are told that you have to balance your books for 1 April, there may be no choice but to cut those services because, unlike other parts of the sector, probably around 60% to 70% of local government spending is on statutory services that we have to deliver. That leaves a relatively small number of things that we obviously want to deliver but where we have the option of making cuts. The classic one is fixing the roads. We are not obliged to fix the roads but it is absolutely the right thing to do. In the same way, preventative services are not a statutory service. They are absolutely the right thing to do. We should not be cutting them, we do not want to be cutting them and we do not want to be put in a position where we are forced to.

David Phillips: I would echo a lot of what Councillor Jamieson was saying there, and there are some areas of preventative services that generate savings further down the line, but I would also urge some caution, on the part of the sector, about relying on that argument all the time. When some of my colleagues looked at, for example, the savings to the NHS associated with social care, looking at how the cuts to social care increase spending on the NHS, they found that, while it increased spending on the NHS a little, it was not enough to offset the cuts to social care.



I am not saying that means, "Great. Cut social care." What I am saying is that, when you are making a case for services, as well as making the case that it can save money down the line, you also need to make the case that these services are vital and important. They are important for dignity and for the kind of society that we want to be. The hard-nosed people in the Treasury will look at the numbers and, if you are relying on this one argument and they can pick it apart, that could happen.

Q10 Ian Byrne: Minister Jenrick informed council leaders on 16 March 2020, "The Government stands ready to do whatever is necessary to support councils in their response to coronavirus." I know the LGA has asked the Government to provide a cast-iron guarantee that the financial challenges facing councils as a result of Covid-19 will be met in full in the future. What is your understanding of the current commitment from Government?

Councillor Jamieson: We continue to push for a commitment for a cast-iron guarantee. As I said earlier, for this year—I cannot do my maths quick enough—something like 87.5% of our additional expenditure has been covered, and we need that extra 12.5%. Yes, we want that covered but, if I was going to ask your Committee to do anything at the end of this, it is to really focus on next year. That is the bit that is really worrying us and that is where we want the cast-iron commitment.

Rob Whiteman: I do not think they will give a commitment. This might be quite a tough CSR for the sector, I am afraid. I would like to say that these issues will be covered in full, but we might be in a place of almost flat cash for the sector, on an argument that inflation is very low, when the inflation costs borne by the sector to provide services are actually much higher than the retail price index. If we get a flat cash settlement, it will be, in effect, more cuts, because it will not meet the real-terms increases that councils are facing.

I also think the Government are likely to be in a place of saying that they will not baseline the one-off resources given for Covid. As I said at the beginning, some of the costs associated with Covid are going to be permanent and need to be baselined. I hope I am wrong, but I think this might be quite a tough settlement for the sector. I fear that the Government will not agree to fund all costs and all income loss associated with it.

David Phillips: I would come back to my point from a bit earlier that, because the costs and impacts vary quite significantly across councils, partly depending on their income mix and partly depending on the actual responses that they have made, because different councils have responded in somewhat different ways to the crisis, it is actually quite a difficult task for the Government to allocate funding via a general funding formula, even one that they have developed specifically for Covid, like they have done recently and have used in recent tranches of the Covid funding.



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That suggests thinking about other options. In Wales, for example, funding has been allocated on a claims basis, where Welsh local government provides information on the costs they have incurred. That is then assessed by the Welsh Government and they are then refunded on that basis. That potentially allows you to target funding more exactly, but you need to have a proper system in place to make sure that you are being fair and consistent across authorities, because different authorities might be claiming for different things.

I would also suggest a potential role for councils, at least in the short term, using their reserves, and potentially more flexibilities on borrowing, to fund some of the measures. Local government can be potentially compensated at a later stage by central Government once they know what the outturn costs are.

Looking ahead to next year and beyond, there is a difficult decision for MHCLG to take about whether it does a spending review on the basis that we are going to take a judgment on what proportion of the costs and impacts will persist during the year or whether we do it on the basis of most of these costs abating, with top-ups during the year, as we have this year, to address things. That is going to be one of the difficult choices for MHCLG. Will they try to build funding in advance for what they expect Covid costs next year to be, or will they do it via top-ups during the year?

Ian Byrne: On the question of reserves, Liverpool had £170 million in 2010 and now it has £16 million. There is not much left in reserve in my city. I have another two questions but I am conscious of the time. Can we ask the witnesses to answer those in writing?

Chair: We will probably have to do that because we have another panel to go. Could we now concentrate on issues that have not been covered before, in questions and answers? Thank you, Ian. We will follow those up.

Q11 **Mohammad Yasin:** What areas have required additional spending since March, either because they are new or because the costs to deliver them have increased?

Councillor Jamieson: There has been a general increase in costs anyway, because obviously we have had more staff shortages and we have had to work in a Covid-compliant way. You can take that as a general point across everything. In particular, if you look at certain parts of services that councils deliver, clearly there are some fairly significant additional costs with adult social care, which are related to PPE and operational issues in care homes. Most councils have certainly had a 5% uplift in their care charges. There are also a variety of things, whether it is open book or whatever, to cover additional costs that their care providers have had. Quite clearly, if you are dealing with residents who have Covid, it incurs a whole variety of costs as well as the issue of trying



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to operate where you are going to have more people off because of Covid.

If you look at children's services, we have again seen, in a similar way, extra costs. We have not been able to place children quite as easily because of all the Covid security issues, so the cost of providing care for looked-after children has gone up.

You then look at some of the universal services. Homelessness is an obvious one. The Government have done a great job on rough sleepers but it is much more than rough sleepers. A variety of people typically sofa-surf. You cannot do that in a lockdown. I am very pleased that the Government put a moratorium, effectively, on evicting people, but we have also seen a stifling of the market for rented accommodation. As people have become homeless, there has not been the churn that we traditionally have, so, again, more costs are coming on there.

In the same way, that applies to things like waste. It was not the first thing that struck me in terms of increasing costs. The costs are increasing not just in terms of the operational thing but because, now that more people are at home and have not been going to work or school, more of the waste that they would create at work and that would have been disposed of commercially is created at home. We have seen a significant increase in the amount of waste. Thankfully, there has been an even larger increase in recycling, so we are slightly greener through this pandemic.

I could go through a whole list of them, but there is a huge list. I have not talked about all the changes in our income, which have been really significant.

Q12 **Mohammad Yasin:** Councillor, which of these services may require long-term additional spending beyond the pandemic?

Councillor Jamieson: As both David and Rob alluded to, social care in particular is going to cost us more in the long term. We are not going to be able to reduce our fees next year. They have gone up. There is a change in working practices, and we may even see fundamental change.

I do not think we have seen the full impact of this pandemic on children's services. Not so many children have been going to school. There have been mental health issues. Families have come under more stress. I cannot remember whether it was Rob or David who alluded to the fact that we typically see a delayed impact on families after an economic downturn. I am expecting children's services to have more costs in the longer term. Those are two very big areas.

I would also look at what I call the lower-tier stuff. Homelessness is a big issue and we just do not know what the impact will be there on the economic activity, et cetera, and finding homes for people.

Q13 **Mohammad Yasin:** You rightly mention two very important services. I



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had a portfolio as a councillor for adult social care and homelessness, and I am well aware of these issues. They are long-term issues and have been for a long time. David, what is your view on long-term additional spending beyond the pandemic?

David Phillips: Looking at the long-term spending projections, it is clear that there are two areas that are expected to bring major pressures on councils' budgets going forward. One is adult social care. Everyone has that in mind with the ageing population. That is an important element of it—with an older population there are more people requiring care in their later years—but a lot of the pressure is actually coming from younger adults. It is great news and a very good thing that more adults with disabilities are surviving longer—it is fantastic—but it means that there are growing pressures on the provision of services to those with learning disabilities at younger ages. It is both younger and older adult social care.

Over the last 10 years we have seen a quite substantial increase in demand on children's services, which councils project will continue. The impact of Covid is such that we would expect these pressures to somewhat increase. Research published earlier this year suggests that a 1% fall in employment leads to a 2% increase in the number of people with long-term health conditions. At least some of those will require social care. Research from the United States suggests that, terribly, economic downturns are associated with an increase in child abuse due to the pressures in families. Of course, we have seen impacts on children's mental health through lockdown and on their learning. I would expect there to be further upward pressures there.

There could be some silver linings, although they are probably quite small. One thing that councils have been doing during the crisis is innovating in the way that they are providing services, trying to use more technology and trying to use ways that can reduce the costs. I am not saying that that will be able to address all the pressures but, if that can continue, it could be a way in which productivity could be increased at least somewhat, which would help to address some of the pressures.

Rob Whiteman: There are two areas that I would highlight that have not been covered. Some areas that have been cut may need to be brought back. CIPFA publishes a performance tracker with the Institute for Government that looks at all Government expenditure, and sometimes things that are cut have to be brought back. My question would be whether some of the prevention that has been cut, for example youth services, will have to be brought back.

I also echo the point that my two colleagues have made about adult social care and children. It is not only that the volumes will go up but it looks like the complexity of the cases will be affected by Covid. Therefore the cost of the packages themselves will be under greater pressure, not only the volume of them.



Q14 Mary Robinson: We have heard some of the figures involved already, with a potential £1 billion deficit and £2.8 billion in loss of income. I just want to confirm, in terms of the sales, fees, charges and all those areas that councils will lose income, whether £2.8 billion sounds like the right figure. Is there agreement on that? How do losses of this nature impact over the medium term? We may assume that there could be short-term interventions but, over the medium term, what do these sorts of losses mean to councils?

Rob Whiteman: We think that the loss of fees and charges is still shy of about £800 million a year. To answer your question about the medium term, remember that that is every year and that gap adds up and adds up and adds up as pressures into the council.

What we have not touched upon today is what is called the collection fund, where tax revenue is taken. This is a complicated thing and I will gladly write to the Committee but, in effect, this is a ring-fenced fund. The business rates and the council tax go into it and then pay the council as the billing authority, the preceptors or the levying authorities. Generally, if there are losses on the collection fund, it is written off against future taxpayers. A lack of collecting the council tax pushes up the future council tax level.

While those losses have been deferred, it is absolutely clear that there are going to be long-term losses in the collection fund such that, on an accruals basis, allowing for that deferment, we will not receive as much tax as we thought we would. The Government are going to have to come up with some mechanisms to deal with bigger and bigger deficits developing in the collection fund because, otherwise, it would automatically push up council tax levels in itself, let alone generating more resources for services. This issue of loss of income is a bit of a cumulative ticking timebomb.

Councillor Jamieson: On your question about whether there is some level of consensus around the £2.8 billion, it is based on the September returns that councils gave, so, yes, there is consensus. However, as David said earlier, we did not know in September that we were going into a second lockdown, so there are good grounds to say that it is probably an underestimate. Notwithstanding what Rob was saying about the £800 million gap, some really difficult things are going to come forward. Leisure centres are not bringing in the income they were. Many of them are outsourced to trusts. Are those trusts viable? Will they be able to continue? Will we be seeing, as a result, closure of some leisure facilities that previously did not cost the council money because they generated enough money?

In the same vein, we are talking about things like car parking. A lot of money was made by quite a few councils from their car parks, with people commuting into London, that supported essential services. I cannot see that coming back quickly.



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It may come back a little quicker in other areas, such as fees and charges in planning. If the Government hit their target of 300,000 houses a year, we may see planning income coming back quicker. It will be a mixed bag, and I certainly do not expect to see a complete turnaround next year. Some of those things could be seriously long term. What worries me is that we may see leisure centres and theatres fail because, by the time the income recovers, it is too late.

David Phillips: I would echo what has been said so far, but I can give a little more detail on some of it. When looking to the potential for upside risk this year in sales, fees and charges losses, I would say that, given a second lockdown, we would expect there to be more likelihood of an increase in these forecast losses rather than a decrease. The Government's compensation scheme would compensate for about 75% of those losses at the margin but that still means 25% of it being put on to councils' budgets. Because district councils in particular, as well as some of the councils in London, rely quite substantially on this income, the losses could be quite concentrated on particular parts of local government.

Looking to the future, when we looked at the potential medium-term implications, our baseline assumption was to say, "What happens if councils lose 10% of their parking income in the long term?" That would be about £200 million, so we are not talking about insubstantial amounts of money here. What will matter for the future of income from parking in particular will be what happens to shopping habits and working habits. Do we see these increases in internet shopping and home-working persist and, if so, how much do they persist? That will matter a lot for councils.

Q15 **Mary Robinson:** We have looked at that in our review of the future of the high street, Zoom towns, et cetera, and how people will work in the future.

I have one final question for Rob on the impact on local authority reserves. What will be the impact on reserves, and why would any impact on reserves be important? Why should we be looking at that and be aware of it?

Rob Whiteman: We will see a period of councils drawing on reserves a bit because of the issues that we have spoken about in terms of the resources position. It is a concern to the Committee if reserves are drawn down too fully. Had councils not come into this crisis with reserves, we would have seen a lot of councils go bust and a lot of councils fall over. I am in no doubt that the next decade will be the most difficult that the sector has faced, with a huge amount of uncertainty.

Strangely—and I know this sounds like an accountant talking—when you are facing a lot of risk, you should increase reserves because reserves are a proxy for the risks that you are trying to deal with. Of course, the instincts, particularly for the layperson on the street, would be, "Why do councils not spend their reserves in order to avoid cuts?" It is important



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that councils maintain adequate levels of reserves considering the increasing risks that they are going to be bearing.

Q16 **Mary Robinson:** Will councils take the risk of saying that they are going to make cuts but put money in reserves? Obviously, residents will not want to see that.

Councillor Jamieson: First, I want to come back on the point of reserves. People frequently look at the reserves of councils and say that there seems to be quite a lot of money in there. There needs to be a real understanding of reserves. A lot of those reserves are ring-fenced for particular things. It may be developer contributions to build a new road or whatever and that actually takes two or three years. It may be for a school. That is not there to support your revenue reserves. There are insurance reserves. There is money that is held on the council balance sheet that actually belongs to schools. You really need to look at the reserves and break them down. You will find that, in most councils, only a small amount of what superficially seems a large number is actually available. A lot of the reserves should really be thought of as accruals rather than a general reserve that is available to people.

Most councils will have general reserves of typically less than 5% of their annual expenditure. Given that they have been run down last year and they are being run down this year, the cupboard is getting very bare. Some of the work that the IFS has done has said that, by the end of this year, 40% of councils, if they use reserves to balance their books, will have run out of the available general reserve. As Rob is rightly saying, in an uncertain time, you need a bigger buffer, not a smaller buffer.

David Phillips: I agree with a lot of what has been said in the last couple of minutes, but I am a little more sanguine about the potential for the use of reserves than the other two witnesses. There are quite a number of authorities that have very low reserves. We saw that being an issue, for example, with Croydon. That is one of the reasons why, if Government do not stump up extra cash, there is this question about giving more financial flexibility to capitalise spending or more generally relaxing borrowing rules in the short term.

There is a bit of scope, at least this year, for many councils to draw down reserves if necessary. What Rob says is that, when risks are higher, you want to pay more into reserves, but they are still there. You are paying more in because you may need to draw it down at some stage. If we always think that reserves need to be kept, they are partly there because of risks, and sometimes, when a risk hits, that is the time you have a chance to use it.

Rob Whiteman: I would add that Councillor Jamieson mentioned insurance reserves, for example. If, as a council, I hold insurance reserves in order to self-insure—to have a bigger excess, in effect—it brings down the cost of my premia with the insurance markets. On the one hand, I could reduce my reserves but, in the medium term, I am



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going to pay higher insurance premia. We have to take this medium-term view. There is always a cost of spending for the short term only. My advice is generally that medium-term problems need medium-term solutions.

The sector needs to be properly funded. The sector needs to have the right resource base from its taxes and its income. If you look for short-term, one-off measures in order to balance the books, it generally does not work for the medium term. Where we do unfortunately see some councils, like Croydon yesterday, running into problems, it is because they think it is all right to take short-term action and maybe it is all right to run down reserves. Croydon scored pretty poorly on CIPFA's resilience index and was shown, coming into this crisis, to have some of the lowest reserve levels in the country. I am afraid that that may have contributed to them paying the price of it.

I do not want to gainsay what David said, but this is not just a piece of economics and a piece of statistics; this is real budgets paying for real services with real budget-holders trying to manage for the medium term. For people actually managing services in the sector, they are trying to give the message that these may look attractive figures on a table in a report, but they are real budgets for real purposes. Be careful not to force councils to spend those reserves because there will be medium-term consequences.

David Phillips: I was not suggesting that they should spend on medium-term or long-term issues; I was talking about the short term. I very much agree with what Rob Whiteman is saying.

Chair: We appreciate that, but we have to move on. I am tempted to find out which other councils are at the bottom of CIPFA's resilience index. I probably will not get an answer to that today.

Rob Whiteman: It is online; you can take a look.

Q17 **Rachel Hopkins:** Thank you for your full answers earlier. I will home in a little bit. The NAO's readying report pointed out that dealing with an emergency does not mean that your longstanding problems disappear. One of the longstanding problems we have around social care is the lack of a plan for the reform of adult social care. Do you have any comments? What are your expectations around that?

Councillor Jamieson: It is one of the fundamental issues for the sector. In social care, as David pointed out earlier, it is not just about older people; it is also about younger people with learning disabilities and so forth. The pure demography means that our costs are going up far faster than our income or inflation. It is one of those pressing timebombs and we certainly have presented to this Committee in the past about that. This is all laid on top of Covid.

We really need a national solution to adult social care. Fundamentally, that is around having a long-term financial solution that is related to the



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number of people needing social care. It cannot be based on the number of council tax payers or the number of businesses you have in your area because the two, from a financial perspective, operate quite differently. It needs to be based on the number of people who need that care and it needs to be adequately funded. I know that the Local Government Association has produced many reports looking at alternatives and options and, to be open and honest, we need Government and all political parties to grasp that nettle and come up with a cross-party solution that works in the long term.

David Phillips: I would echo all of what Councillor James Jamieson says there. Historically, there has been a disconnect or a tension between the Government's policy on local government funding, which has been moving towards more local funding reliance and local revenue streams—we know that different councils can raise different amounts—and social care policy, which has been trying to move more towards national standards for eligibility and care. How do you have national standards with very different localised funding? Squaring that circle and seeing the interaction between the local government funding system and the way social care is funded with the policies you want to have in place is a really important part of having a proper plan for social care.

As well as thinking about the local government funding aspects and what the social care offer should be, there are then questions about how you pay for that offer. There are discussions about the extent to which it should be a ring-fenced tax or the extent to which things like housing assets should be taken into account. There are some complicated issues there that colleagues and I have looked at. I hope the Government are taking wide evidence on those, because some of the easy-sounding options often have stings in their tails and could end up being unfair across generations and unfair between people who own their assets in different ways.

Rob Whiteman: In CIPFA's submission to your Committee, we gave the five points that we think are necessary for social care reform. All of us would say that Government now need to do some heavy lifting, because serious reform is needed. On the whole, social care is a paid-for service. We are used to health being a service that is free at the point of use, funded by taxation. That is now one health and care system, but what is the balance between self-paying and services paid for by the taxpayer? How do we avoid the catastrophic costs of care that can sometimes occur? How do we make sure that we have intergenerational balance between what is being received by one generation and what is being funded by another? How do we make sure that we are investing in re-enablement and prevention, which actually help to manage down the costs of long-term care?

Most of all, how do we have some reforms that will stand the test of time for several decades? Both individual citizens and the public organisations running these services now need stability. We have reached a point



where the Government are going to have to come up with some proper reforms that, as Councillor Jamieson said, will require something like a royal commission or something with cross-party support in order that several Governments would stick with these reforms to provide the basis for the future. We are clearly hurtling towards a point where serious social care reform is needed.

Q18 Rachel Hopkins: The NHS and adult social care systems were supposed to be integrated by 2020. Has that lack of integration impacted on the pandemic response and what we see for the longer term?

Rob Whiteman: On the ground, people in health trusts and local authorities are working with each other better than ever. I hear from both sides of the fence—from finance directors in the NHS and finance directors in local government—that the pandemic has forced them to really work with each other and to accelerate that. I actually think it is policy that is wrong rather than the willingness on the ground to come together. We now need Government to catch up with what people are trying to achieve on the ground.

Councillor Jamieson: I would echo that comment. This pandemic has caused the NHS to recognise the value of social care and the importance of greater integration. That is key. Integration really needs to be on the basis of local government still taking charge of social care. The last thing I would ever want is for social care to go into the NHS. It would remove a financial headache, but it would not deliver as good a service.

Q19 Rachel Hopkins: I have a final point about moving into winter. The NAO report talked about the fragility of social care providers in financial terms. There could be a risk of a loss of capacity. How likely do you think this is to happen over the winter? I have heard that some are struggling and that there are difficulties there.

Councillor Jamieson: One of the things that councils did across the country—and it is one of the reasons for the extra cost—was that we took on a whole series of measures to help support the fragility of the sector, whether that was advance payment for care beds or for domiciliary care. We have also had a lot of councils looking to increase their own personal resilience. For instance, in my own council, we are setting up a social care company. We have started providing some services directly ourselves. There is more resilience in the system. Those are all sensible measures that we need to take because, quite clearly, with increased costs and with some care homes not being able to take on as many residents, there is some fragility in the system and there is some risk. All the councils are trying to anticipate that and to put in resilience.

This is so difficult to do when you are also, at the back of your mind, thinking, “I need to make some cuts to save some money.” We should be focusing on how we can ensure that we go through winter delivering the best services we can to our residents to support them, without the



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monkey on our back saying, "Oh, and I have to save some money." It is really difficult to do both.

Q20 **Rachel Hopkins:** I totally agree. Are there any other thoughts from David or Rob?

Rob Whiteman: In the interests of time, I completely agree with what Councillor James Jamieson has just said.

Q21 **Bob Blackman:** I am sure all the panel would agree that there are huge advantages to having multi-year settlements in terms of planning for the future. It looks as though we are going to have a one-year settlement. We do not know the position. What is the impact on local authorities of a one-year settlement?

Councillor Jamieson: Planning is absolutely key. Being able to make decisions over the short, medium and long term is important. As David was saying, there are things that we will do today, if we have a one-year strategy, that will harm us in the medium term. There are things that we would like to invest in—for instance, in prevention or even capital—that will make us more stable in the longer term. If you do not know what is happening next year, it is really hard. Do you carry on a service that is going to have to shut next year because there will not be any funding? In that case, you would shut it now. There are a lot of difficult decisions. A longer-term financial settlement is really important in terms of delivering better services more effectively.

I clearly have some sympathy with the Chancellor because none of us has a crystal ball and can really guarantee what the world is going to look like in three months' or six months' time. I have some sympathy as to why there is a need for a one-year settlement, but it clearly comes at a cost to local government. A delayed financial settlement until late December is again causing problems. We are having to make decisions very late in the day. Could I put a figure on it? No, but it quite clearly is going to lead to additional costs in the longer term and some deterioration of services.

Q22 **Bob Blackman:** Rob, you have argued for longer-term place-based funding so that spending decisions reflect local circumstances, maximising integration and alignment of public services while providing outcomes and value. That comes from your evidence. Are we now reaching a time where we need to consider how we fund local services in the long term, and which ones we do fund? Are we reaching that sort of point whereby the public purse is not going to pick up some of these services?

Rob Whiteman: That is a really good question. As Councillor Jamieson said at the beginning of today, the more public money spent on local services that is pooled for reprioritisation locally, the better. At the moment, councils control some budgets—council budgets—but a lot of the local state is directly managed by Whitehall. It is now a pretty fundamental time where we need to see all of that money pooled for local decision-making because councils will be in a position to say, "If we are



going to tackle skills, homelessness and integration, we want to redirect resource from here in order to invest there.” This is about the choice of prioritisation.

Q23 Bob Blackman: James is saying, “Do not take money away from us and give it to the health service.” Should it be that money is taken away from the health service and given to local authorities to provide those services at a local level?

Rob Whiteman: You need to put it all on the table and then allow local prioritisation. Priorities will vary between areas. Different demographics have different needs. The advantage of a one-year settlement at the moment is that we are probably in a period of looking at what I would liken to grant and stability to get through the next year.

For the medium term, we need reform and wider tax-raising as well as looking at the whole local system. Ideally, today we would be talking about sustainability, climate change, levelling up, investing in skills and the council’s role in creating economic futures. Growth is the most vital thing of all. After the second world war, we had a lengthy period of economic growth being higher than the cost of borrowing. It looks like interest rates will be low coming out of this crisis. If economic growth is higher than the cost of borrowing, the nation is going to pay down the debt that it has just assembled.

I genuinely believe that we need to be in the territory of looking at what the council’s role is in levelling up and creating economic prosperity. We can only do that if we have a multi-year approach to budgeting where councils do have greater influence over NHS budgets, skills budgets and other budgets that are presently controlled by Whitehall. Local councillors have a track record of making tough decisions and saying, “We will have a bit less of that and a bit more of that,” which, as I said earlier, is where the nation now needs to be. It cannot all be paid for. Areas need to make choices.

Q24 Bob Blackman: David, from your perspective, are we looking at local spending or national spending? How is it going to be run? How are public services going to be provided going forward?

David Phillips: There is a really important question to be asked on that issue. As Rob said, one approach is to take a standard route of a more local setup in the UK, where we allow local government to take a stronger role in not just the current services it has responsibility for but in a wider range of public services. That could mean things being more tailored to local circumstances. It can give more power to local people via the local electoral process. It can also mean different policies and different levels of provision in different parts of the country.

This crisis has quite sharply illustrated some of the tensions that exist between a desire for greater localism—more local power to decide on lockdowns or the rules and restrictions—versus, at the same time,



concerns about the complexity or the unfairness of the rules differing in different parts of the country. We saw that play out when we had lockdowns differing in the north and the south. This tension between localism and centralism has been exemplified in this crisis. I hope that sparks a debate that we have needed to have for a long time in this country about what the role is of national Government and local government, what should be consistent across the country and what a national citizen's right is versus where we think the power, the information, the knowledge and the discretion of local government can make a real difference. I see that as another potential opportunity.

Echoing what Rob was saying, next year is probably one where the emphasis is on stability and getting through the crisis. In that context, a one-year review now probably makes sense. In the medium term, we should be asking these big questions and moving back to longer-term plans.

Q25 **Chair:** Councillor Jamieson, we have had comments that things have been managed better at local level than national level throughout this crisis in many respects. The big challenge with a vaccine will not be producing it but actually getting it out and getting people vaccinated. Do you think local government will have a role? Should central Government already be talking to you about that?

Councillor Jamieson: Local government should definitely have a role in rolling out the vaccine. Just look at the sheer logistics of it in terms of trying to find 1,500 places to deliver the vaccine across the country. We have sports halls. Every year we run elections and we have a whole series of places where we run those. Involving local government, even just for the property logistics, is very important, and there is so much more that we can offer. We are certainly encouraging the Department of Health to talk to us.

Chair: Thank you very much for that. Thank you all for the evidence you have given to us this afternoon. I do not know whether it was stimulating or depressing. It was probably a mixture of the two. Thank you all very much. I am sure we will take these issues up with the Ministry and the Government appropriately.

Examination of Witnesses

Witnesses: David Williams, Sharon Taylor and Sir Stephen Houghton.

Q26 **Chair:** Thank you very much to our second three witnesses today for joining us. Perhaps I can just ask you to introduce yourselves.

Councillor Williams: I am David Williams. I am the leader of Hertfordshire County Council, but I am also the chairman of the County Councils Network.

Councillor Taylor: I am Sharon Taylor. I am the leader of Stevenage Borough Council. I am the finance lead on the District Councils Network. I



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have to put my hand up and say I am also a county councillor in Hertfordshire.

Councillor Sir Stephen Houghton: I am Steve Houghton. I am the leader of Barnsley Council and I am also the chair of SIGOMA, which represents 47 unitary and metropolitan authorities.

Q27 **Chair:** Thank you to the three of you for coming today to represent the broad swathe of local councils in their different forms. I asked the first panel a similar obvious question. Could you say what you think is the current situation facing councils? Particularly, how are the different types of councils being affected? Obviously, you all represent different types of councils, so perhaps you can address the particular councils that you represent.

Councillor Williams: Local government has faced a lot of uncertainty over recent years. The national political situation has resulted in one-year rollovers of our funding. Ideally, as you heard from your last panel, a three-year settlement and a degree of certainty would be very welcome, but that has not been the case in local government over the last couple of years. One consequence of that is that our funding has been bolstered by a series of one-off grants, be it social care grants, the Better Care Fund or the provision for the social care precept. That has created a degree of uncertainty and now, looking into the next year, we are very concerned about putting budgets together for next year.

When I look across our CCN member councils, currently, our view is that they are facing, for next year, a £2.2 billion shortfall, and included in that is some £800 million of unrecoverable council tax and business rates. That is simply the position for my 36 councils, 11 of which are unitary councils and 25 of which are two-tier shire counties. That is quite a challenge in our particular sector of the local government world.

Councillor Taylor: District councils represent the market, coastal and new towns and rural areas. I am sure your members know that. We cover about 68% of the country. To provide some financial context, in my borough, out of every £1 paid in council tax, the district council will receive 12p. My residents pay around £200 a year for 120 services that the district council delivers. Obviously, the amount that they pay in council tax is much more than that because it goes to the county council and the police. Because of cuts to our grant funding over successive years and council tax freezes, district councils now have far more reliance on the income we get from fees and charges, and sometimes from commercial income.

Also, having been hit with Covid, we have seen additional expenditure of around £185 million across all of our service areas including, very importantly, about £41 million for homes and homelessness. We have seen a greater loss from income losses. We have seen a £360 million loss in income, including commercial income and other lost income. What complicates ours is that some of us have housing revenue accounts



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where we have also lost money and had additional costs in our housing accounts. The lost income tax in shire county areas is significant, and we have also lost some of the business rate income as well.

As collection authorities, it is important to say that there is always a very quick hit on district councils because, if the money does not come into us, often councils still have to pay that money to the upper-tier authority. Some of us have made arrangements on that, but it is vital. Regarding business rates, we have seen a drastic change in the way that the economy is shaped and I am pretty sure that we will see and be hit by falls in business rates income very quickly.

Councils really have stepped up during this lockdown. We are the frontline services. I am sure I do not need to go through all the areas that we have been delivering. We have distributed 800 business grants in my authority. On shielding, we have been getting those food parcels out to the doorsteps and helping our older and vulnerable residents. I have 45 rough sleepers housed; they are now taking part in our Housing First programme. We have created safe spaces. Importantly, we have been involved in some of the work that will aid the recovery such as construction. Keeping up with the construction, I have a £1 billion regeneration project in Stevenage and we have a massive housebuilding programme. We have had to keep that on track during the Covid crisis.

We have been delivering our essential services, and that has required some agency spend to keep those going while people were self-isolating or absent because they were sick. Services that people do not always think of include domestic abuse. I have had to increase our safe space provision from two to 16 in order to account for a 90% increase in domestic abuse calls. Other issues include free school meals, holiday activities, track and trace and Covid marshals. I could go on, but I will not because I am sure your members are very familiar with some of these things.

It is the uncertainty and the sustainability of our funding going forward. I heard your previous witnesses' evidence, and I absolutely echo that. We have Covid pressures in year, but they are not looking like going away very quickly for the next financial year. If you want an illustration of that, my parking income, even before the second lockdown, was still only at 30% of what it had been in the previous year. We are experiencing significant losses, and losses that have really hit districts the most. The loss of council tax income and business rates will continue into next year.

Chair: We are going to explore the issues of spending increases and revenue losses in more detail in due course.

Councillor Sir Stephen Houghton: From our perspective, just to set some context, 43 of the 47 SIGOMA members are in the top 50% of deprivation across the country. We know from a report that has been issued today that they are the ones that have been hit most by Covid, in terms of infection rates, other health consequences and obviously the



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economic effect as well. It has been a pretty big impact across all the places that we represent.

In terms of the financial impact to date, we think the total cost pressures are around £2.25 billion, of which the Government have given either assurances or funding so far of £1.5 billion, so, as we move towards year-end, the current position is around a £700 million to £750 million shortfall. Obviously, we are concerned about the impact of the lockdown that we are currently under in those areas as well. Also, many of our members are tier-3 authorities, so even when the lockdown ends in December, many of our authorities could still find themselves under severe restrictions as we move towards Christmas and the new year. There is a lot of uncertainty not just about the future but about what the current impact is likely to be given many of our areas are facing restrictions.

Of course, against that, we are trying to balance budgets. Authorities are looking at all kinds of measures. Some are looking at cuts in services in order to balance the budgets; some are looking at the use of reserves, as has been suggested. While many are not issuing section 114 notices, a section 114 notice focuses spending on essential spending and not elsewhere, and we have seen a lot of our members doing just that without issuing a section 114. The practical effects of that are being done without the formalities of a section 114 notice being in place.

I would echo what my colleagues have already said. The uncertainty going forward is as much of an issue for us because, obviously, the losses of income are likely to materialise in the years ahead because of the impact on the collection fund. That deferment is not going to solve the problem. It is kicking the problem down the road, in a sense. How are we going to deal with that against the background? As I say, these are some of the most deprived communities in the country.

Q28 Chair: I am going to come on to one particular point and then we are going to go on as before and look in more detail at where spending has increased, where revenue has been lost and consider whether Government support has been adequate. Before we do that, many councils over many years have been finding efficiency savings and have probably done it better than any other part of the public sector. To what extent has Covid stopped those efficiency savings being developed and, therefore, affected your finances for the future?

Councillor Sir Stephen Houghton: The first thing to say is that councils' efficiency programmes need officer capacity to deliver those programmes, and we have simply had to divert that capacity into meeting the needs of the pandemic. A lot of those plans have simply not been able to be put in place. Secondly, a lot of those efficiency schemes are often based on Invest to Save, so we put money in up front on the basis that it will have a revenue impact further down the track. Of course, the money we would put into those Invest to Save schemes, again, has had to be diverted away from those efficiency packages.



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The third point I would make is that we were trying to create efficiencies in a world that no longer exists because the changes to service needs and the ways we operate that Covid has created have meant we have had to go back to the drawing board. If people think we could just simply roll out a whole series of efficiencies to cover the problems that we have, they are very much mistaken.

Councillor Taylor: I agree with what Stephen has just said. Efficiency savings come on top of 10 years of austerity, so they were difficult anyway. My authority has achieved savings of over £10.5 million on a budget of £9 million. That was difficult in any case. With the resources that we have had to put into managing the pandemic and to taking on quite a substantial number of additional roles that we did not have before, it is difficult to think of this in terms of efficiency savings. Many district authorities already work with other partners in other district authorities to generate efficiency savings for all the councils involved. We certainly do that in Hertfordshire.

I would also say that, regarding some of the investment-type income generation ideas on which we were working and going full steam ahead, we are having to hold back putting money into capital funding for those investments because of the current budget situation. It is important to say that, although the promise was made that all the costs of Covid would be met, I am grateful for the money we have had, but it has not met all of the costs. We are having to make those adjustments to our budget and not make revenue contributions to capital because we need the money in the revenue budget.

Councillor Williams: I agree with what the others have said. In my own authority, we have had to forgo something like £4.5 million of savings that we were hoping to get from adult social care, simply because of Covid and the pressures that has brought. When we look at next year, I mentioned that, across the County Councils Network, we are facing a shortfall of £2.2 billion. County treasurers have identified potential savings of £485 million, but I view that as a relatively low number across so many authorities given the pressures of £2.2 billion that we are facing.

Q29 **Mary Robinson:** Local government has had billions of additional support from central Government. I want to ask you a question in two parts. First, what is your assessment of the Government support to date? Secondly, how well consulted or engaged do you feel you have been?

Councillor Williams: If you had told me 12 months ago that the Government would find £4.6 billion in compensation for Covid costs and pay that out already in four tranches, I would have thought that was quite an achievement, candidly. The process has been a bit of a challenge. This was a process based on councils indenting, effectively, through their data submissions, the identification of additional costs. It is probably fair to say that, when we first started doing that, it demonstrated that, with 300 different local authorities in England, there were some very different approaches and there was quite a spread of



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numbers. Over time, that has improved significantly and, speaking from my own special interest group, the County Councils Network, we hired Grant Thornton to help us understand how we should be submitting our returns.

I have to say that, when I look upon that £4.6 billion that has been distributed in four tranches and the way in which those distributions have been made, the basis of the allocations has been changed, particularly in the most recent tranche, to address some of the concerns that Stephen highlighted earlier in terms of deprivation in the councils that he represents. I think the Government have been quite clever in how they have done that, candidly. They have exceeded my expectations. If you had asked me in March if I was going to be compensated adequately for Covid, I would have had real doubts but, to date, while the approach has always been looking backwards in terms of how costs are being incurred, never the less, we have had this series of tranches.

There is still a bit of uncertainty about income because the first payment has not yet been made. Councils have indented for the lost income that they have identified. It is going to be interesting to see how that is paid out over three tranches, so the jury is still a little bit out on income. Of course, as has already been discussed, in relation to taxation and the impact on collection fund balances for next year, we are asking the Government to guarantee those shortfalls and, so far, they have not done that yet. That is one of our big asks going into next year.

Councillor Taylor: We have had significant funding. There is no arguing against that. For tranches 1 to 4, we have had to complete the delta returns, which is a reasonable ask from Government. It is uncertain when we get the funding for district authorities because the loss of income has been our biggest difficulty. We still do not have the income guarantee funding. We are told that we will get it at the end of November, but this is funding that we have been lacking since March and, as has already been said in your earlier session, we have to make the books balance in-year. We hope the money is forthcoming. We get only 75p on every £1 of the funding that we have lost in income, so we would have a gap there anyway whether the calculations agree with our own or not.

The apportionment of the irrecoverable tax losses is a big issue, as David said. We need to stress to Government that, if we have to take the whole burden of those lost revenues ourselves, that will have a very significant impact on local government, and we wait for the spending review. One very key ask from us is that those losses are apportioned between central Government and local government. Otherwise, it will mean more significant cuts to the jobs and services that we deliver. You discussed those in your previous session.

The Institute for Fiscal Studies, back in August, said that shire districts faced combined pressures from costs and lost income averaging 23% of pre-crisis expenditure, compared with 15% on average for other council



types. I have already spoken about the ratio of cost to lost income, and that means that, even with the Government grants and the income guarantee, we still have an 8% shortfall in district councils, regardless of whether they agree with our calculations on lost income.

Q30 Mary Robinson: The Government have had to work quickly throughout this crisis. Do you feel that you have been engaged enough in the discussions and consulted enough in the decision-making?

Councillor Taylor: We have had a series of webinars with the Secretary of State, and we have had the opportunity to feed in from District Councils Network; I am sure the County Councils Network has had the same opportunities. Quite understandably, it has felt very rushed sometimes. Very last-minute requests for information on the returns that we had to fill in have really caused us problems. District councils are small. We do not have a lot of spare officer capacity, and to have to fill in extensive complicated returns or bids for one-off funding pots at very short notice has put another significant pressure on our officers.

Councillor Sir Stephen Houghton: It must be recognised that the Government have put a substantial amount of money into this. That has been very welcome. It would be wrong of me to suggest otherwise. However, we have had mixed messages through the development of the pandemic. When we first started, it was about, "We will do whatever it takes. Get on and tackle the problem." Partway through the pandemic, it suddenly became shared responsibility. My guess is that a lot of councils may have approached the way they dealt with the pandemic differently had they known it was shared responsibility, as opposed to, "We are going to cover all of your costs." That has not helped either the Government or ourselves as the messages have continued to evolve.

Q31 Mary Robinson: What would they have done differently?

Councillor Sir Stephen Houghton: In the early part of the pandemic, the way that local councils really got out and pushed the money out there may have been very different because, if they thought they were looking at substantial cuts at the end of the year, they may have been a bit more circumspect, which then may have undermined the response to the pandemic itself. They would not have wanted to do that, but, none the less, we have a financial responsibility to bring in a balanced budget, so I suspect directors of finance would have had a bigger say in the response in the early part of the pandemic than they did at the time. We have to recognise that. It was the bravery of local government getting that out there.

In terms of the tranches, I think David has covered this partially. In the early part, we were very unhappy with the way the tranches were allocated because they did not take in deprivation and need. It was basically a per-capita allocation. The Government have put that right in the latest tranches, as David indicated, so that has been very welcome. Had they not done that, I would be giving you a very different answer to



the one I am currently giving. It is important for us that that recognition of need goes forward into the spending review and into the fair funding review over the longer term, because if we do not get that then, again, it is going to be the poorest areas that lose out.

Q32 Mary Robinson: I am going to stay with you on that point, because my next question is directly about the diverse local impact of Covid. We have seen it impacting differently in different areas. How well do you think that central Government recognised and addressed these local differences when allocating support? It sounds as if you are saying they were a little late to the table in recognising those differences, but do put me right if that is not the case. How do you think that the opportunities for the Government to support its levelling-up agenda in addressing these issues have been taken, and what more should be done?

Councillor Sir Stephen Houghton: You have partly answered it for me in that the early allocations did not do that but later allocations have. The welfare spending from DWP, again, takes deprivation into account. They have got into the right place to do that, so the point for me is continuing to recognise it. We also need to look at not just the pandemic itself but the economic impact of the pandemic. What are the Government going to do around all of that? The poorest areas, again, will find that it is their economies that will struggle to recover. How are we going to support those going forward?

This comes to the heart of the spending review for one year, next year and even in the longer term. In 2013, the Government introduced a new formula for funding local authorities, which was about 50% of business rates supported by a system of top-ups and tariffs, while local authorities would retain growth above inflation. We always said that will produce very different results across the country in terms of local authorities' ability to raise cash to meet their own needs. We are now seven years on. Last year, the Government calculated the value of that growth at about £1.4 billion. We calculate the value of that growth at about £1.8 billion.

In 2013, the Government said they would reset the system in 2020. We are now into 2020, so the time has come for the Government to honour their promise and reset the business rates system. That will level up in terms of where all that extra business rate cash in the country goes. If there is one recommendation from the Committee today to the Government, it should be to honour their promise to reset the business rates system, because that will have a considerable effect on levelling up for these areas that have lost out, first of all, through austerity but certainly through Covid-19 at the moment.

Q33 Mary Robinson: David and Sharon, do you have anything extra to add on the diverse impact of Covid across different areas?

Councillor Williams: Just reflecting on what Stephen was saying, if you go back to March and April of this year, the pandemic started in London



and worked out from London. I can understand, in those early tranche payments that the Government committed to, that they used what is known as the social care relative needs formula to distribute the first tranche. Undoubtedly, that did favour a lot of my authorities because their principal activity is social care, and there is a disproportionate bias towards those authorities who are spending relatively more on social care, such as the upper-tier county councils.

Inevitably, as the pandemic has worked its way through the country, there have been some very characteristic elements to it that have meant that the north-east and the north-west have been really badly affected by the pandemic, so I can understand the decision taken by the Treasury and senior Ministers. I believe, ultimately, the Treasury decided that it was going to tweak the fourth tranche in order to address some of those deprivation issues and would, therefore, favour some of those councils in the north-east and the north-west in particular.

Councillor Taylor: I have a couple of quick points. First, the focus on adult care services always skews what goes on in local government funding. We have to accelerate the consideration of how this is going to be organised and funded for the future, because it constantly skews the funding for local government.

Secondly, there are other Departments involved with funding local government activity. We have had a very different response. For example, from DCMS, we have been pushing and pushing around the leisure funding. There has never been a more important time for the leisure facilities that our district councils look after. They help people with their recuperation from illness, and they help people to keep fit in the first place. We need to keep them going. We have had a very slow response from DCMS, and one of the pots of funding that it has given is, yet again, another bidding pot. If this health prevention and treatment is important, it is important for all councils in all areas. Where there are other Departments involved with local government funding streams, we need to speed those up and get them going.

I have a leisure trust in Stevenage. I have had to support that trust to keep it going. Many other councils are in the same position. We could not get an answer for quite a long time on whether those of us with leisure trusts could get support for our funding. We need all Departments to be working on this, and the same is true for the Department of Health and Social Care. We have not always had the speediest answers on some of the workstreams we have undertaken on behalf of those Departments. We have had funding coming through. It may not have quite met the, "You do everything you need and we will fund it," as Steve said, and that is what has left us with the gaps that we continue to explore and that will get worse next year if we are not careful.

Q34 **Mary Robinson:** Should we not just accept that, for the short-term, targeted grant funding by central Government is the only solution, and councils will just have to sacrifice some discretion on tax and spend



levels?

Councillor Taylor: We need the certainty for our funding. We constantly face these funding pots, and then we are waiting months and months to find out whether we are going to get the funding or not. The Next Steps funding is a good example of that. Some councils will have got Next Steps funding to help our rough sleepers go from the hotels where we put them up initially into a more sustainable accommodation zone. We had to bid into the pot to get that Next Steps funding. I was lucky. We got some of it, and we will be developing some homes for our rough sleepers for their next-stage accommodation, but it should not be a matter of whether you are in the lucky dip and you are lucky coming out of it. It should be a matter of, if you need it, you should be able to access that funding. These one-off pots create so much work for all of us, and they do not give us the certainty we need to be able to plan our budgets properly. It is by planning that you can be most efficient.

Q35 **Chair:** I would like to follow up on the spending pressures that have come with Covid. I appreciate you have all covered quite a lot of them already. Are there any additional ones that you want to add, particularly ones that may continue beyond this year and will have a lasting effect? Have they displaced work you would want to do on preventative services, meaning the here-and-now pushing out of services that you would normally want to provide but probably cannot do at present?

Councillor Sir Stephen Houghton: On your latter point about preventative services, clearly, that is where we all want to be. After 10 years of austerity, any easy wins that may have been out there in terms of efficiencies or service reductions have already been taken, so we have been driven, unfortunately, towards removing those preventative services, not simply by Covid but by the context in which many of our members have found themselves anyway.

In terms of ongoing cost pressures, David made the point earlier that it is the income losses that are causing our finance directors the biggest worry. First, will they recover in due course? Secondly, how are we going to cover the gaps that they leave within our budgets? Many of us hope that a lot of the additional costs will start to come down. Obviously, if we get a vaccine, the need for PPE and other things will start to reduce, so you can see some practical reductions in a lot of those extra costs. In terms of the income losses, that is the considerable worry that many of us have.

In terms of services, we keep coming back to adult social care and no doubt you have been doing it throughout the entire session. There is a significant problem here about how we fund this going forward and how we maintain the current system. A lot of our members—I am sure this applies to the counties as well, to some extent—have been funding empty beds to keep the care providers in business. We cannot keep doing that, so there is going to have to be a major restructuring of provision, Covid or no Covid, because the system at the moment just is not working and,



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financially, it is not sustainable. That one area in particular is going to have to be addressed.

I agree with the earlier comments that social care should remain with local government. It is not a health service—it is a social care service—but we need that integration with our health partners to make sure that the system as a whole works well. Government need to sit down with local government and cross-party, as has been suggested, and get a grip on this, because our biggest worry a year ago was children's services and the increasing costs going forward. That is still there in many ways, but it has now been rapidly overtaken by social care and how we are going to deal with this. We do not have a five-year or 10-year horizon to get a grip on this. We are going to have to do it fairly quickly.

Councillor Williams: Very quickly, I entirely agree with what Steve said about social care. Some of us have made very bold offers to care providers. If they are employing people on minimum wage or zero-hours contracts who are having to take time off because of self-isolation or because they are contagious, we have made some very bold offers that those employees should be paid through their period off from work. Some of those arrangements, I am sure, will continue going forward. Again, recognising the importance of social care and needing to pay more attractive wages, my own authority took the decision to pay at the London living wage, which was quite an uplift on some of the minimum rates that were paid. I can see that having an impact on costs and funding requirements going forward, right across the social care sector.

Councillor Taylor: I would like to point out three quick areas where that might apply. One is health prevention. We have a healthy hub, and we were about to launch our youth healthy hub. If we take a real hit on the Covid funding, those services are potentially in jeopardy. Depending on the efficacy of the vaccine, we will need to continue to fund the agency staff to support our essential services to keep them going. I am particularly worried about housing. Our temporary and emergency accommodation has gone through the roof. I currently have 149 families in temporary and emergency accommodation. That is a real issue and, if the economic climate continues to get tougher, that will certainly continue to get worse.

We have to focus across local government on what we are able to do relating to recovery. That is really essential to us and, if we had to pull funding from some of the very essential work we are doing on recovery, regeneration, housebuilding and so on, that would have a much longer-term impact that would seriously concern me. I hope we are able to get through the current funding crisis without having too great an impact on that.

Q36 **Chair:** We have mentioned the loss of income. Often, this is not the issue that most people assume to be the problem. They see the spending pressures. All of you have already mentioned it in various regards. I just



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want you to highlight any additional features about the loss of income, and particularly the longer-term impact of the loss of business rates and council tax, which the Government have not covered yet.

Councillor Williams: Across our network, we are assuming that there will be a loss, in terms of the receipts this year, of 5.5% in terms of council tax and 5.7% in terms of business rates, and that will roll over into next year through the collection fund balance approach. The Secretary of State said at the outset that there were three legs to the level of support. One was to cover Covid expenses, which is the £4.6 billion; the second was sales, fees and charges; and the third was supporting local authorities in respect of lost income. Because that is likely to be multi-year, I suspect the Treasury is looking very closely at that. It is an absolute priority that we get some sort of guarantee about that lost income. In terms of county councils' revenue, 66.9% comes from council tax. There have been reductions in council tax and business rate income; for us, it is about £800 million across the sector. We need some sort of response from Government, which we have not had yet because it is viewed as a multi-year settlement issue that needs to be deliberated on by the Treasury.

Councillor Taylor: I have given quite a lot of information about the lost income that we have been suffering from, but your total income comes from council tax, fees and charges and business rates. The business rates model, I think it is widely acknowledged, needs some serious fixing, if not chucking away and starting again. We are capped on council tax, or are likely to be capped on again, so we cannot increase council tax. For fees and charges, it is not only the areas of income that have been affected, but, of course, in previous years we might have said that we will increase some of the fees and charges and that will help us to fill the budget gap. That is just not possible at the moment. There is a diminishing return on fees and charges.

I am in a commuter area. The number of people using our car parks to travel to London for the day has dropped very dramatically. As I explained, only 30% of my car-parking income had recovered even before the second lockdown. It is not only that, but you cannot put charges up because people are really struggling with their own personal finances and you just end up getting less use of your services if you put the fees up too much, so there are very significant pressures coming from that direction, which are not likely to go away by the end of this financial year.

Q37 **Chair:** In terms of loss of income, Sharon Taylor mentioned earlier this issue of councils' leisure facilities often being run at arm's length, which I think is a problem for some of your members as well, Stephen. It has been treated almost like extra spending, because it is money that the councils give to an outside body, as opposed to loss of income, which it would be if they ran the centres directly. Do you want to address that problem along with the other loss of income issues?



Councillor Sir Stephen Houghton: In general terms, on loss of income, for SIGOMA members—this is prior to lockdown, so these figures are likely to change—it was around £800 million, of which £500 million was business rates and £300 million was council tax. They need to have some assurance, as David has said, as we move forward on both those areas. Some of that will come back, and we recognise that, hopefully, as we get out of the current position, but a lot of that will not. At the moment, we are in this very uncertain position as to what that impact is going to be. We are really going to need a guarantee around that, even if it means that money is going to come in later when we can see the effect, for our planning purposes around all that.

There has been a tendency, particularly in social care over recent years, just to put up your council tax and that will solve part of your problem. For the poorest communities, we are just getting the poor subsidising the poorest. That is not a solution for us when we have very weak council tax basis. It does not resolve the problem.

On leisure facilities and that £100 million for trusts, my authority has a trust so what we get from that is going to be very welcome, but we are not sure about the distribution of that; there is a question mark about how that will work and where it will go. Again, that will only tend to cover the current financial year, so, on fees and charges, again, we do not know what the recovery programme for that is going to be. How quickly will people get back into using those facilities? How quickly can councils get some of these things back?

For next year in particular, though it is not just next year, we are going to need that spending review to give us cover in those areas, or I am afraid we are going to find ourselves not just trying to build cuts into the budget for next year; you are going to find councils having emergency budgets in-year again, trying to cover off things that they thought may be covered only to find out that it is just not going to be there.

Q38 **Chair:** Finally on income, so far we have not covered loss of commercial income for some authorities, and that varies enormously depending on what authorities have done. There are probably question marks about what some authorities have done, and Rachel Hopkins, as a member of the Committee from Luton, has quite a legitimate investment in an airport that is clearly now suffering because of Covid. What about commercial income and whether that should be covered at all, because the Government have not done anything on that so far, have they?

Councillor Sir Stephen Houghton: There are a couple of aspects to this. Councils have been doing some commercial income for a very long time and the Government, in a sense, have built into the funding settlements a recognition that councils are getting that. It would be very unfair on councils simply to exclude that from the picture in total. Over the last 10 years, because of austerity, equally, Government have for a long time, in a sense, turned a blind eye to councils that have sought to solve the austerity problem by investing and getting a commercial return.



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Suddenly, it has become an issue where the Government say, "You should not have been doing that, investing other areas."

It is a fair point to say that some of those investments have been less than advisable in some areas. It is quite right to say that, but it needs a proper intense look and a breaking down of where those incomes are and what we can say are quite legitimate. Others, if I am being honest, have been less than advisable and councils, in doing so, should be prepared to take responsibility for them. Do not treat it en bloc. Let us unpick this and see where the problem lies.

Councillor Taylor: We are always in danger, when we discuss this subject, of looking at some of the outliers and thinking that is the normal way of carrying on, and that is not the case. We have been encouraged by Government to be more self-sufficient in our funding, and that has, to some extent, pushed us towards commercial investments. Some of us have rightly concentrated our commercial investment on where it is going to benefit our local economy, and that is the direction we would want to be taking this.

My area, which is a new town, inherited some of the commercial property from the development corporation when it was wound up, so we have commercial income coming in from that. Of course, that has taken a real battering over the course of Covid because many of these are small businesses that have not been able to carry on functioning. Some qualify for the grants, but many of them do not. The commercial income has taken a real hit. We should not look at outliers. There are definitely some who have made ill-advised quantities of investment that I would not want to make myself. Investing to support your local economy is justifiable and, if you can get some funding out of it to support your activity as a council, that is acceptable if you are driving the local economy at the same time.

Councillor Williams: I take the point that successive Governments have encouraged local authorities to make commercial investments. When you think about Luton, and about the Manchester authorities that own the large majority of the Manchester Airports Group, I would sincerely hope that Government could work with them to address any particular problems they have. We cannot get away from the fact that there have been a lot of ill-advised investments that have simply been arbitraging the PWLB interest rates and the ability to borrow at low interest rates. I do not have any sympathy for the Spelthornes and the Croydons of this world, which are in some difficulty as a result of some ill-judged investments.

Q39 **Chair:** Thank you for those very clear comments from all of you, in agreement with each other. We now need to move on to look at another particular issue. Something else we have been waiting quite a long time for the UK Government to announce is the UK shared prosperity fund. Stephen Houghton, you are sat in Barnsley waiting for something. Let us



see what it is going to be.

Councillor Sir Stephen Houghton: We have been. Again, a lot of our members have benefitted from European funding over many years, and that has been a reflection of the deprivation that exists and the underlying weaknesses in those economies going forward. As we have, sadly in my view, come out of Europe, that European funding is going to disappear. The Government promised there would be a replacement for all of that. Unfortunately, we have not seen that yet and the consultation is not there.

What I can say is that, when it comes to sustaining economies and this levelling-up agenda, for many parts of the country that shared prosperity fund is going to be incredibly important, both in terms of the volume of the money that is there but also in terms of the local discretion on being able to spend it. What we do not need is a shared prosperity fund where the Government determine how we have to spend it and what we can do with it. The European money was always very flexible, and that has to be retained in any new system. Yes, we are disappointed that we have not seen that because, at the moment, there is a gaping hole in our investment planning for the economy.

Q40 **Ben Everitt:** You have mentioned levelling up so much in your previous answers. If we do not get a mechanism for replacing the shared prosperity fund stuff that we got from the EU, what other funds would you see as able to be accelerated at this time so that we can promote growth, level up and invest in local economies around the country?

Councillor Sir Stephen Houghton: I mentioned the first one earlier. In terms of local government funding, it is resetting the business rates position, because that will have an effect on council funding and councils' ability to develop that economic capacity. That is something you can do immediately, which does not cost a penny in one sense, because it is simply redistributing the money, but the Government may want to compensate some of those who will lose out. None the less, that is one mechanism that we should not forget because, in the weaker economies, it is very often the public sector that is driving that private sector growth. We cannot leave it to the private sector. It is too weak, so we have to have the capacity and, in some cases, the resources to kickstart all that, so having councils in a better position is the first point.

Secondly, the Government have already done devolution deals where there is money coming through, so there is an existing mechanism through the gain-share model that places like Greater Manchester, South Yorkshire, North of Tyne, Merseyside and others can use. The infrastructure is there. It is just a case of where the money comes from. If the money is there, push it through into those areas and we can get that money out fairly quickly in terms of infrastructure projects and other things, such as skills and so on. The mechanisms have been put in place by the Government. The question is whether the money is there. If it is, please get it out there as quickly as possible.



Q41 **Ben Everitt:** David, I am going to be relatively provocative because, although I am a natural optimist and I love hanging around with optimists, I really like that answer, Stephen. The point was made to us in the previous panel that we are about to see business rates income drop off a cliff because of the pandemic. Where does that leave us in terms of plugging the gap? What suggestions would you have?

Councillor Williams: There has been an assumption and a strategy that local government would rely to a greater degree on business rate funding. Everybody is now agreed that the way the economy is changing makes that unsustainable, so almost inevitably you will still have council tax, but there needs to be more central Government direct funding of local government in order to compensate for the loss of business rates. We need to find a better way of arriving at settlements over a medium-term or long-term period.

Can I just comment on the UK shared prosperity fund and devolution? It is really important that the UK shared prosperity fund comes now. The existing European funds do not just help in the north-east and the north-west; my own county of Hertfordshire has benefitted from some £60 million of European funding. That funding is currently being used to support skills delivery and business support through growth hubs. All of those arrangements are contracted with providers. There are jobs on the line, so we need some certainty that there will be funding for those sorts of services going forward.

Stephen has rightly made the point about economic growth and devolution, which is going to be so important in terms of generating revenues locally. Candidly, I and my members want access to the same sorts of deals that the mayoral combined authorities have secured. I am absolutely determined that the Government bring forward a devolution White Paper that enables areas like mine and other important economies in the south-east to be able to access the freedoms and flexibilities that have currently been provided to mayoral combined authorities. Indeed, across the country, we should be going further than that in terms of giving more freedoms and flexibilities to local areas to drive their local economies forward.

Q42 **Ben Everitt:** Passing to you, Sharon, is that view shared at the district tier? Obviously, freedoms, flexibilities and access to funding pots require some degree of scale? What is the view from your perspective?

Councillor Taylor: As far as the shared prosperity fund is concerned, I would like to see that being largely devolved to local government, but as part of sound local economic strategies that focus on investment for community wealth building, so investment in apprenticeships, jobs, skills and some of the recovery work that we are already seeing being done across the country. I am loath to do this with Stephen on the call because he will probably shout at me, but you do not just need levelling up in the north of the country. There are parts of the south where there is a lot of levelling up that needs to be done. My area is one of those.



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We also need to use the shared prosperity fund to leverage some funding from the private sector. In our regeneration project in Stevenage, for every £1 of public money put in, it is bringing in £10 of private sector funding. That will help support our local economy, but, as it starts to develop, those kinds of projects will be driving GDP, which is really important.

We focus on some of the things around the growth deal in Hertfordshire. We have formed a very effective partnership in Hertfordshire, working across 10 districts and the county council. We have a great growth deal, which we are about to submit. I cannot see why that would be necessarily dependent on governance mechanisms designed in Westminster. If we can do it the way we want to do it locally, why should we not be given the powers, funding and subsidiarity principles to let us get on with the job? We know what is needed in our local area, and we have already developed a really good proposal for growth in Hertfordshire. We should be left to get on with it. If the shared prosperity fund can contribute to that, fantastic.

In the LGA, we have been looking very closely at business rates. We need to think very hard about the model for business rates going forward. Three big employers locally have mothballed their offices, packed them up, sent all their staff home and their staff are all working from home now. We need everyone who uses local services to contribute to them. We start with that. We have now set out a set of principles from the LGA about how we shape this going forward, but there still needs to be a lot of work done between us and the Government on how we shape business rates going forward.

Ben Everitt: I could talk about local government finance and local economic growth all day, but I realise we have not got all day. Thank you very much to the three witnesses.

Q43 **Rachel Hopkins:** I would like your thoughts on the impact of another one-year spending round, and particularly on whether this delay in it coming to us will have an impact on your ability to consult, and whether that will impact on whether you will be planning any cuts. I would like to hear your thoughts in general. Sharon, do you want to start? I think you wrote about this in your submission.

Councillor Taylor: We understand why the Chancellor is looking at a one-year spending round, but it really hampers our ability to plan, innovate and drive forward some of the things that we would want to be doing in local government. There is a constant pressure of not knowing until the end of November. We have to set budgets. The final budget meetings for our councils are usually in February, and we will not know how much we have coming our way from Government until the end of November. That makes it incredibly difficult to plan when we have to make our budgets balance every year. We need to get on rapidly.



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We understand the reasons for it this year, but we need to move on rapidly to have a longer-term financial funding settlement so that we can give that certainty around our planning and manage things like what we do with our reserves and how we manage the use of those or not using them, or contributing back to them if they have taken a bit of a hammering. It is really important that that longer-term certainty is there, particularly for our staff. It is very difficult for our staff. It is even more difficult this year, but, every year, we are not certain of the funding position for the council. We have put up with this for a number of years now.

Of course, council tax freezes have been imposed on us for several years now, and there is more risk on the income side, so it is almost impossible to plan anything unless you have a really fantastic crystal ball to look into. That is not good enough for the future, and it is not good for our communities. It is not good for the country's finances either, because we cannot get the recovery going that we want until we can plan our funding properly.

Councillor Sir Stephen Houghton: I would make much the same comments. We have been talking all afternoon about local government needing to plan for the longer term. That is where you get better decisions, and hopefully better outcomes, as a consequence of the services and activities that we do. We have to tell the Government, if it is a one-year spending plan, not to rely on economic growth in local areas to fund services. You are going to have to plug that gap out of the Exchequer, because you are not going to get the growth in the way that you have anticipated previously. That is the first point.

Secondly, there has been a bit of debate between us and MHCLG about the costs of children's services and the need for them to get those costs sorted out and built into next year's plan, obviously long-term as well. That is a bit of a gap at the minute that we have picked up. It is looking at not just adult social care but children's services and ongoing financial issues; that needs to be part of the settlement for next year as well. Enough has been said about adult social care. Everybody has got the point in and around that.

We would like for the Government, if they are going to defer the longer term into the future, not to leave that too long. We do not want to be in another one-year settlement next year, the year after and the year after. We are going to have to get a grip on this. It is fair to the Government in a sense, but it is also fair to ourselves and our communities that we can start to look at where this goes, particularly for our members, which are largely in the north and the midlands but not entirely.

We need to look at the spending of local government alongside the investment into the economy as well, so not just looking at these as separate entities. The more we can get the economy moving, the more we can take the pressure off the national Exchequer. It is making sure



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the whole investment infrastructure is joined up. As much as I like to keep services going, and I do, equally I can reduce the need for those services if we have people in work and if we have investment in a lot of that wider community infrastructure at the same time.

Councillor Williams: We heard Rob Whiteman earlier being rather pessimistic about how this is going to turn out. Candidly, I view this as a bit like a house of cards or a Jenga tower. There are certain discrete blocks that have been provided to us in recent years and, if some of those grants or arrangements are not rolled over, that is quite threatening to the house of cards or the Jenga tower. I am concerned, I have to say.

The sector as a whole has blown a little hot and cold about this, but, generally, people recognised the need for a review of local government funding and how funding is allocated in order to address deprivation and need, and the mechanism for that was the fair funding review. If you are going to bring the fair funding review forward, you need to do it in a medium-term envelope so that there are no losers and people can accommodate any redistribution that happens within the fair funding arrangements. You cannot do that on a one-year basis, so the fair funding review is off the table as far as things stand at the moment. You would need that medium-term view to enable you to bring something like that forward. I would argue that it is long overdue based on the way that funding is currently allocated in a very historical way in some parts of the sector.

Building on what Steve was saying about children, there are some complexities in terms of how special education needs are funded through the dedicated schools grant and the high needs block. In that respect, we are not just reliant on MHCLG. We are very reliant on DfE in terms of how that funding is made available. There are some real demands, particularly from families who have secured education, health and care plans for their children and the resources are not there to meet their requirements.

Councillor Taylor: We definitely have a housing emergency, and we need to tackle it. On top of what we are already dealing with, we also have the issue of Housing First and rough sleepers, which I want to do. For example, one of the blocks of funding that David mentioned is the new homes bonus. We have been limping along with no real answer on the new homes bonus for a while now. We really need to know whether that is going to be continued. Obviously, district councils want it to be continued. It is an incentive to build, and it provides some of the infrastructure that is needed and the funding for the services that are needed to support that new housebuilding. We would strongly advocate, as DCN, that we get an answer on this. We want to see the new homes bonus continue, so we incentivise building that, while it will not do it entirely, will start to unlock the whole issue around more provision of housing, which is the only way we are going to solve this housing crisis.



Q44 **Rachel Hopkins:** Local government is always on the front foot, because you all pre-empted my next question and have already answered it. My final question—do feel free to add any other further comments—is whether the pandemic has resulted in a re-evaluation of what services are best provided at a local level and balancing that with how they can be provided in a sustainable way.

Councillor Williams: Yes, there has been a re-evaluation. There are ways-of-working issues that I am sure will have an impact. The amount of contact that all of us on this call have had with MHCLG officials, Ministers and people from other Departments should contribute to a different way and better engagement between central Government and local government.

Locally, on the ground, the relationships between local government and schools, and particularly local government and health, have been affected. In parallel, there is a lot of reorganisation going on in health as we head towards integrated care systems. The focus on population health will result in more joint working across health and local government. That is now understood by both parties, so I foresee, partly influenced by the pandemic, some quite significant changes in terms of that sort of engagement and how we work in a more joined-up way between various local services in our areas.

Councillor Sir Stephen Houghton: The first point I would make is that we clearly have, certainly for top-tier authorities, a Government with national standards on certain services that they demand from local authorities, children's and adults' services being the obvious ones, yet the funding for those is very different across the country. Those two things do not go. If the Government want to have that national picture and expect local authorities to provide the same, there has to be a financial ability to do that. At the moment, we do not have that. They need to address that technical point.

Back to David's point, we need to look at the whole funding system here, because the current one simply is not working. My argument is that it was not working before Covid, and it certainly is not working now. They need to reevaluate that, do it again and look at where we are in many ways, if we are being honest agents of Government to deliver safety for our children and so on. It is much more about us doing that well, as opposed to having the choice not to do it or something else.

We have been a success in the pandemic because all local agencies have come together and joined up in a way that many of us thought probably would not be possible, if I am being honest. The case for place-based budgeting and giving us control across the whole public sector piece is now as strong as it has ever been. We could do so much more if we had more discretion across our agencies where we can share and pool budgets and decide on what local outcomes are needed. There is so much more we could contribute, even in times of austerity and where the funding may not be as much as we would like. We could get a lot more



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out of the system if the Government were prepared to trust us to do that. That might mean a grown-up conversation between the two parties about how much influence the Government want and how much we can have. Giving more discretion for place-based budgets would make a huge difference and would be a huge help to the Government in achieving their ambitions.

Councillor Taylor: I want to be a glass-half-full person with this. The way that local government has responded to the pandemic, I hope, has given Government more confidence that we can and do deliver on the ground, even in areas in which we have never worked before. There are some really fantastic examples of that. With track and trace, local councils are achieving 97% of contacts, whereas the centrally organised thing is 60%. I would certainly point to shielding. Who knew that local government would do this far better than a Brake Brothers articulated lorry turning up on Mrs Miggins' doorstep? That was never going to work.

I hope we have convinced Government through our actions during recent months that we are capable of doing it, but it needs a real big change in the structure in this country. We are the most centralised country in Europe. We need to start thinking very hard about devolution around local place, powers of local competence and funding, and a real principle of subsidiarity around things being decided at the level that is most appropriate for them. It needs a national debate. I do not suppose that people will want to do it in the middle of a pandemic, but we are going to have to do some of it.

There are urgent issues that need resolving. I agree with what both Stephen and David have said regarding the issues around business rates funding and fair funding for local government. We are going to have to work on that right now, because we will not be able to deal with the medium-term pressures that we are facing without tackling it. To some extent, we cannot do that until Government make their mind up about what they are going to do about adult care services. If we can have a quick resolution to that, we can then get on with working on what the quantum of funding needs to be.

Quantum is really important here as well. There just is not enough money in local government at the moment for it to work properly, so we have to address that at the same time. I hope the confidence in local government to deliver has built, as well as our confidence in each other, because we have all worked together through this. That has been a real plus for me. I hope it has been for others as well. Give us the money. Give us the powers. Let us get on with the job.

Chair: Thank you very much to all our witnesses. Just before we go, I will let Ben Everitt do something very important, which is to put on the record his particular interest that is of importance to this inquiry.

Ben Everitt: It is very important, because I missed dialling in at the start due to some technical difficulties. Otherwise, you would have heard me



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declare that I am also a unitary councillor, like many of my colleagues on this Committee.

Chair: Thank you to our three witnesses on this second panel. That has been really helpful to the Committee as an illustration of the major challenges that local government faces and of the incredible work that councils across the country have done in the last few months. We should put that on the record. It is greatly appreciated, and the feedback we all get is about what an incredible job has been done in responding to a crisis in a way that has really helped local citizens. Perhaps you can pass those thanks on to all your members. It is really appreciated. Thank you for your evidence today.