HOUSE OF COMMONS

Levelling Up, Housing and Communities Committee

Oral evidence: Financial distress in local authorities, HC 56

Monday 13 November 2023

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Watch the meeting

Members present: Mr Clive Betts (Chair); Ian Byrne; Mrs Natalie Elphicke; Mary Robinson; Nadia Whittome.

Questions 61-132

Witnesses

I: Dr Jonathan Carr-West, Chief Executive, Local Government Information Unit; Paul Dossett, Partner and Head of Public Sector Assurance London & South-East, Grant Thornton; Abdool Kara, Executive Director, National Audit Office; David Phillips, Associate Director, Institute for Fiscal Studies.

II: Lorna Baxter, President, Association of Local Authorities' Treasurer Societies, and Section 151 officer, Oxfordshire County Council; Gary Fielding, Section 151 officer, North Yorkshire Council; Steve Thompson, Section 151 officer, Blackpool Council; Bob Watson, Section 151 officer, Surrey Heath Borough Council.

Examination of witnesses

Witnesses: Dr Jonathan Carr-West, Paul Dossett, Abdool Kara and David Phillips.

Q61 **Chair:** Welcome, everyone, to this afternoon's session of the Levelling Up, Housing and Communities Committee. Following on from our session last week, we are again looking at financial distress in local authorities. Last week, we heard concerns from a number of councillors about their individual authorities and the wider local government system, and the amounts of money—or inadequate amounts of money—that are available to provide services now and in future years. This afternoon, we have two panels. The first is from research and other public organisations involved in local government, and then we move on to a panel of local government officers to explore the same issues we were exploring last week.

Before I turn to our first panel of witnesses, I ask members of the Committee to put on the record any interests they have that are specifically relevant to this inquiry. I am a vice-president of the Local Government Association.

Nadia Whittome: I am a board member of One Nottingham.

Mrs Elphicke: I am a vice-president of the Local Government Association and I employ a councillor.

Chair: Thank you. We come to our witnesses. Will you introduce yourselves and the organisations you are here on behalf of this afternoon?

Abdool Kara: I am Abdool Kara, executive director at the National Audit Office. My teams and I shadow DHSE, DfE and DLUHC, hence my role here today.

Paul Dossett: I am Paul Dossett, a partner at Grant Thornton. Grant Thornton works with approximately 50% of local authorities—mostly in terms of audit relationships, but also some advisory work.

Dr Carr-West: I am Jonathan Carr-West, chief executive of the Local Government Information Unit. We are an independent membership body supporting innovation in local government. We work with about 180 councils in England.

David Phillips: I am David Phillips. I am associate director at the Institute for Fiscal Studies and I lead our work on devolved and local government finance. We are an organisation that is a microeconomic research institute and analyses a whole range of Government policy issues.

Q62 **Chair:** Thank you all very much for coming this afternoon. We will go in the same order with the first question, which is fairly general but pretty key. What is the key cause of the problems of financial distress that are currently facing many councils up and down the country?

Abdool Kara: I would say three things. The first is increased demand, particularly in demand-led services such as adult social care, partly as a result of demographic change—by the way, it is not just people over retirement age; there is increasing complexity of working-age adults who are receiving adult social care—children's social care, with more complex conditions, higher numbers, the impact of covid, the impact of the cost of living and so on; and homelessness, particularly in London and the south-east, although it is spreading further north, again with cost of living issues and local housing allowance issues. That is the first area: increased demand.

The second area is structural funding issues. We have seen significant funding cuts since 2010, and funding is not keeping pace with the demand I have just mentioned. At the same time, things like council tax and the adult social care precept have not been allowed to rise at the same rate as inflation and, to the extent that the local government financial system now relies more on local funding than on national grant funding, that has not been able to keep track, as I say. On the financial side, the method of distributing funding has not been updated for years. We have not had a council tax revaluation since the early '90s; the relative needs formulae have not been updated since 2013-14, and so on.

The third area, for the last couple of years, is inflation: cost of living increases, inflation on revenue services, such as children's placements, national living wage, energy costs and so on, and on the infrastructure side—the ability to deliver infrastructure projects within original budgets.

Q63 **Chair:** We will go down the table again, but if points have already been made and you just want to say, "I agree with what has been said," please do so—that helps us get through all the questions.

Paul Dossett: I recognise the context that Abdool mentioned. The other thing I would say in terms of acuity and why it is receiving attention at the moment is that some of the past decision making at some councils has brought the number of section 114s very much into the spotlight. Those decisions, whether they were based on poor governance in general, poor decision making or poor investments, have obviously contributed to those councils getting into a very difficult position. I would add that we are perhaps moving to a tipping point for those councils that are doing business as usual. They are not doing anything particularly different, but they are struggling with the demand and inflation pressures that Abdool mentioned.

Q64 **Chair:** Jonathan, I will ask you to comment on the question too, but I note that you did a survey of various respondents in local government. You asked whether they are confident in the sustainability of local authority finances, and 14% said that they were, which is a pretty stark figure.

Dr Carr-West: Yes, 14% said that they were confident in the sustainability of local government finance, and 8.5% said they were anxious that they would not be able to meet their statutory duties this year—in other words, that they would end up in a 114 situation. That sounds like a small percentage, but it is, I think, 23 councils—a very similar figure to what SIGOMA found in September, when it was told by 26 councils that they were at risk of issuing a 114 in the next two years. We have talked about this over many years, and lots of us have been ringing this alarm bell, but it has turned from a crisis that is coming towards us into a crisis that is very much here.

What Abdool set out about why this has happened is exactly right; I 100% agree with that. The other thing I would add is the level of uncertainty. We interviewed 60 council leaders and chief execs about this over the summer, in addition to the survey that we ran. One chief executive said to me, "It's not just that we don't have enough money; it's that we never know how much money we don't have." You are constantly guessing at what the situation might look like, because we get one-year financial settlements; you have bid funding, which is competitive and uncertain. So you do not even have a set foundation on which to make decisions.

The final thing I would add is that the bit we are told is really broken is the link between funding and need. Abdool pointed out that some of the costs are about working-age adults with very complex needs. One chief executive told me about an adult they have where they are spending £1.5 million on a single person. He said, "Look, if they lived three streets over, that's my neighbour's problem. There's nothing in the funding mechanism that distinguishes between that. We are both, as it happens, funded largely through council tax. There's no needs formula that picks up that we have a really large cost and they don't." These are the things that we need to look at if we want to ameliorate the situation.

David Phillips: I very much agree with what Abdool was saying about the pressures underlying the local government financial situation at the moment. I would actually do one more thing, though, and distinguish between factors generating pressures, which I think are fairly common across the sector as a whole—there were cuts during the 2010s, there are rising costs and rising demands, and there is an out-of-date of funding system. But at least so far, for the councils that have found themselves in acute distress, there have often been one or two other factors involved as well, and those have often been a little bit more idiosyncratic. They are often linked to things like high levels of debt, or high reliance on commercial or property income linked to debt. In one or two instances, there is some indication—although I am not an expert on this—that there might have been some issues with the management processes around that.

So far what we have seen is broad-based pressures, with many councils struggling to manage them, and acute pressure driven by particular circumstances, but we could be entering a period where these pressures start to turn into distress more widely. The period that I think looks most worrying at the moment is 2025-26 onwards.

This year, the increase for local government was about 9.5%, so if you had asked me at the start of this year whether I thought we would be doing this now, I would have probably said, "No, it looks like quite a good year for local government." But one of the factors has been very high service-specific inflation in things like children services, home-to-school transport, housing and energy. That has outpaced that 9.5%, so it has been harder. Another thing for councils is that a lot of their costs are lagged. Contracts are backwards-looking; they are based on what inflation was last year, and some of the impact of inflation last year is hitting councils now. Still, the increase was 9.5% this year and will probably be 7.5% next year, but after 2025 it looks more like 2% to 3%. I think that 2025—the next spending review period—is when it looks like the pressure could really bite across the sector given the envelopes pencilled in at the moment by the Chancellor.

Q65 **Chair:** Just one further issue from me before we move on. Last week, Councillor John Fuller said that he thought councils had been set up to fail because they are getting new responsibilities all the time that do not get properly reflected in settlements. We will move in the opposite direction: David, do you want to start?

David Phillips: That is not an area of expertise of mine, but, for example, more responsibilities on homelessness were introduced a few years ago, and that is one of the areas where costs have been going up quite quickly. Even if new burdens are assessed at the point of delivery, projecting what those will cost in future, particularly when there are policy changes like the freeze in local housing allowances, becomes much harder, and that is when some gaps may open up.

Dr Carr-West: I think that is right. It is always worth looking at other places; it does not have to be that way. In Italy, Spain and Germany, unfunded mandates are not possible, because they are just ruled out by the constitution.

Chair: That is quite a challenge, but it is an interesting point about the different way that it is done in other countries.

Paul Dossett: The only point I would add is that those new burdens tend always to be demand-led new burdens, as opposed to doing a service that you could constrict, hence any funding that comes with those new burdens will be based on history and not on future demand. We have seen with some new burdens that they have grown exponentially, and that has caused local authorities a problem.

Abdool Kara: There is the new burdens funding doctrine. To my knowledge, it has only ever been tested once in court, and the Government won that case. How much a new burden will cost is an art rather than a science. The Homelessness Reduction Act is a good example of a new set of requirements upon local authorities that did have new burdens funding attached, but there are a whole host of levers outside of authorities' control, not least the freezing of the local housing allowance, that have caused demand to go up much higher than the new burdens funding for that particular change was able to fund.

Chair: Right. We will turn to the effectiveness of current funding mechanisms.

Q66 **Nadia Whittome:** First to David: what is wrong with the current local government funding system?

David Phillips: People sometimes say it is broken. I would not say it is broken. Councils are under pressure, with some in acute financial distress, and services are not as good as people would like, but the show is generally still on the road. To some extent, that is actually the problem: it is still ticking over, and that has held up progress on fixing a system that is not broken but is not fit for purpose.

There are three key issues. The first is to do with the way that overall funding levels for local government are determined and how they align with the expectations placed on councils—both the statutory duties and what is communicated about what we can expect from councils. That link between funding and what we expect is just not good enough. Obviously, the funding that can be provided will depend on the overall fiscal situation and the priorities for other areas of spending and taxation, but the Department needs a better sense of what it expects of local government—what councils can reasonably and realistically provide using the funding that is available to them—and a process of recalibrating expectations and funding to bring them more into alignment. Otherwise, they are almost—I think someone used this phrase in the last evidence session—being set up to fail.

To address that, we really need the Department to be working with local government and with researchers and others to look at what is happening to service demand, service costs and productivity within the sector, which I know is sometimes a touchy issue within the sector itself. Together, that can help with an assessment of the quantum of funding across the sector as a whole. That is the first issue that I think is a problem.

The second, which has been mentioned already, is that the system of allocating funding between local government units—between councils—is untethered from any assessment of their overall relative needs or ability to raise revenues themselves. The system as a whole was abandoned in 2013, but it had been breaking down since the 2000s. For some of the elements of the formula, the data is from 1991, so it is over 30 years old—as old as the council tax. They basically need to get a move on with completing the review of the funding system and putting in place a system that can properly assess needs, resources and allocate funding accordingly.

The third issue is that the range of revenue sources available to local government is pretty narrow, and those revenue sources that they do have are pretty tightly constrained and have significant problems. Starting with council tax, I would remove the referendum limits. No national tax is subject to those limits. Revaluation and reform of council tax is also decades overdue. I think business rates could be simplified. There is scope to have a wider range of tax powers: for example, local income tax, and some other smaller taxes, such as tourism taxes. There is a lot that could be done there.

So there are three main challenges: how you assess the overall funding requirements, how you divvy it up, and the sources of funding to allow councils more flexibility themselves. They all require change. There is a lot of work looking at the changes that are possible, and I think the Government have been doing a lot of work on it within the Department. What is needed is action.

Q67 **Nadia Whittome:** Thank you very much, David. I will move to Jonathan next.

Dr Carr-West: The same question?

Nadia Whittome: Yes.

Dr Carr-West: Is it broken? I think it is broken.

Nadia Whittome: What is wrong with it?

Dr Carr-West: David said it is not broken, but it is not fit for purpose. I would happily accept either of those.

What is wrong with it I think is the precarity of it. There is not enough visibility and predictability around funding. There is a quantum issue. Increasingly, councils are saying, "Look, we have spent the last 10-plus years being as innovative as we can to stretch the elastic thinner and thinner and thinner, and we are getting to the point where we can't do that any more," and we have seen that councils are starting to fall over.

For the councils that have issued 114s, as David said earlier, we can look at approximate proximate factors; clearly, there are places where mistakes have been made. But it does not follow from that that there is not a not a systemic problem. If you have a broken system, then, almost by definition, the places that make the worst decisions will be the first to fall over, but they will not be the last.

So there is not enough money, it is too short term and precarious, and, as David said, there is not enough flexibility and variation of revenue sources. There are all sorts of things done routinely in plenty of other places around the world, including comparable economies like France, the US and Germany—local sales taxes, local environmental taxes, tourism taxes, local shares of income tax, municipal bonds. To us, they are these crazy innovations, but they are actually quite normal in most other countries.

There are things you could do now, broadly within the current fiscal envelope. You could return to multi-year funding settlements. You could get rid of competitive bid funding and revert to a needs-based formula of the sort that we had until relatively recently. That would make an immediate improvement. In the long-term, you need to look at elements of fiscal devolution that create more flexibility.

Q68 **Nadia Whittome:** Thank you, Jonathan. Paul, what is wrong with the current funding system?

Paul Dossett: I think colleagues have outlined the main weaknesses in it. The biggest thing for me is the uncertainty. Local government is quite unique in how it has to manage its business. It is not reliant on annual, central, Westminster-type funding allowances like, for example, the Department of Health is. Local government has to be able to plan over a period, because not only does demand vary, the economy and the movement of people also change, and the local authority has to respond to all of those things. If there was more certainty on the funding over a longer period of time—regardless of what that funding was—that would help an awful lot.

Nadia Whittome: Thank you. Abdool?

Abdool Kara: I obviously endorse what everyone else has said; I will add one further dimension. Since 2010, we have seen the proportion of funding—forget about the quantum for a second—that is funded from local sources has gone up, and the proportion of funding from central Government has gone down. For example, income raised through council tax has increased by around 20 percentage points, whereas there has been a reduction of around 50 percentage points in the income from Government grant money.

The consequence of that is that in areas that are deprived, local authorities are more reliant on local income; and in a time of recession or difficulty, they can both raise less money than less deprived areas, and they have higher need than less deprived areas. There is a kind of gearing for more deprived areas in this system that I do not think has been appreciated through rebalancing mechanisms elsewhere.

The other thing was the move towards retention of business rates, which happened in 2013-14. The Government were trying to find a balance between meeting need and incentivising local authorities to grow their own income. The result of that approach was to freeze the need formulae—which has been mentioned—but growth is of course variable across different places. Therefore, we have seen a move away from funding that broadly mirrored, if not matched, need, to a system where growth is highly variable and has no relationship to need whatsoever. That dimension is really important.

Q69 **Nadia Whittome:** That is a very useful overview. Thank you. Moving on—and many of you have already raised this in your previous answers—does the current system distribute effectively to the regions and the types of councils that need it? I think the answer is no, but can you tell us as well?

David Phillips: As you said, one of the factors underlying this is that the need formulae have not been updated since 2013, and in many cases are not used any more. That has meant two things. One is that any changes—even in population, let alone other socioeconomic factors such as deprivation or health—are not accounted for when the formulas are used. Also, given that they are not used all that often, what happened in the

2010s quite a lot was that grants were cut by a fairly similar percentage across the country, but those poorer areas that relied more on the grant had a bigger cut in their overall spending power. That did end in about 2016, but those cuts have sort of been baked into the system.

If you look now at the levels of funding, it is still the case that more deprived areas get more funding than more affluent areas. So, for general local government services, the most deprived fifth get between 15% and 20% more per head compared with the least deprived fifth. They get about twice as much for public health as the least deprived fifth. But when you look at it relative to the assessments of the needs and update, as far as possible, the data that underlies those assessments, the poorest fifth of councils get about 10% below their share of assessed needs, and the richest fifth of councils get about 15% above their share of needs. That is updating only the data, not the formulas as well, but it gives a sense that the system has moved out of alignment with respect to needs. I should say that there is a tool on the IFS website that lets you look at this for all your individual councils.

Q70 **Nadia Whittome:** Thank you. Did you want to comment on the IFS research on regional inequalities, especially with regards to council tax constituting a much bigger proportion of local authority funding compared with 13 years ago? Take the north and the midlands, for example, where house prices are relatively lower and are rising at slower rates than in London and the south-east. In Nottingham, for example, 80% of our properties are band A and band B, which is almost double the national average.

David Phillips: Alongside the issue of the assessment of needs and how funding is allocated according to needs, on the revenue side, our assessments of what people can raise from council tax are still based on 1991 values. We looked at this in 2020: between 1991 and 2019, values had gone up about sixfold in London compared with about threefold in the north-east of England, for example. I think it was ninefold in Hackney and 2.7-fold in Durham, if I remember correctly—huge differences.

Even putting that to one side, the tax structure is quite regressive with respect to property value. The tax for a band A property is one third that of a band H property, but its value is at most one eighth—I make it much lower, probably one fifteenth on average. The tax rate as a share of value for a band A property is about five times, on average, what it is for a band H. So, yes, the council tax system is out of date and regressive, and has become more so over time, and there is an opportunity for reform there. I think you will see reforms being suggested elsewhere in the UK shortly, and there could be scope to look at those options in England as well.

Q71 **Nadia Whittome:** Thank you. Jonathan, can I come to you next, please?

Dr Carr-West: I think the answer to the question is no, for all the reasons that both Abdool and David have set out. Behind this, there is some degree of political choice, certainly in the years following 2013. Abdool talked about how, in 2010, there was this very deliberate choice to insert local authorities into their local economies more. That is not in and of itself a bad idea—incentivising councils to encourage local growth is a good thing—but if you do that in a way that means that councils that do not have sufficient growth cannot provide the services they need, it has gone too far.

So there is a degree of political choice, but I am afraid to say that there is also a degree of political inertia and strategic vacuity about this. It is eight years since George Osborne, as Chancellor, stood up at conference and said, "We're going to have 100% business rate retention." That has a clear strategic intent, of the type I outlined earlier: you are putting local authorities into the economies. Well, we haven't done that; eight years on, that is an incomplete reform. The funding formula has stalled. There was some political choice around this in the years after 2010, but over the last decade, nearly, it has just been a level of drift. We keep talking about "the system" and I suppose it is a system, but it barely qualifies for the name; it is a sort of accidental, ad hoc chucking of money at problems in a way that does not seem to have any real intent behind it.

Paul Dossett: The thing I would add to that is what we have seen, whether it is resetting of the formulae or the fair funding review, is a whole range of things that either have not happened or have been deferred. Therefore "the system", as Jonathan described it, just bumbles along, really; there has not been any real attempt to address the underlying problems.

And the irony of the commercialisation agenda to some degree—this plays to the point that colleagues have made about different parts of the country and their different needs. We will have all seen the news: there has been a wave of investments by authorities in relatively well-off parts of the country in commercial property, some of which have not gone well for them. If those had come off, they would have made those councils richer, but would have done nothing for the wider system, because those commercial opportunities were available only in certain parts of the country. So you have the agenda of commercialisation and regeneration, which had positive intent, but the way it has worked out in practice is that it has probably benefited a few, been disastrous for a few and left the middle largely untouched.

Abdool Kara: You asked whether the local government finance system distributed funding effectively. It is quite hard to impute what the Government thinks "effective" would be. Clearly, at the NAO, we do not make policy; we try to reflect policy. We try to work on the objectives that the Government has set out, and we are not clear on what the Government thinks an "effective" distribution mechanism is. Is it simply "minimising failures"? That might be one measure. I would argue that when it comes to universal services, services that you would expect to be delivered with broadly the same quality anywhere you go in the country—social care might be one of those—a local government financial system would probably want to equalise funding according to need. We have had that point. For services that are more discretionary or where the

Government has a legitimate desire to pick winners—for infrastructure projects or whatever it might be—you can understand that there would be differential funding. But for universal services, I think it is much harder to make that argument.

Q72 **Nadia Whittome:** Is the issue the fact that the funding is not only differential but that there are also these short-termist funding settlements?

Abdool Kara: Certainly in terms of achieving long-term value for money—one colleague made the point earlier—we would say: the longer horizon of certainty that you have, the better you can plan for your delivery of services, for transformation of services, and so on; and that achieves greater value for money. The uncertainty, the number of competitive funding pots, the short-term nature of funding settlements, the fact that there is less money in core grant and more money in competitive pots—those sorts of things militate against achieving value for money.

David Phillips: Can I come back in briefly, please? I should have mentioned this as well, because I agree very much with the point that Jonathan and Abdool made about the importance of politics here.

I think there can be different political judgments about the extent to which you prioritise redistribution according to need or provide financial incentives for growth. I also think you might distinguish between certain universal services and the "nice to haves". But what I think you do need is to have in place a system that allows decisions on how much priority there is on need, redistribution and incentives to be, first of all, very transparent and, secondly, actually tailorable, because different Governments will have different preferences on those.

That is what we lack at the moment, and the first thing that the Government of the day should look at in relation to these issues is having in place a system that allows these decisions to be made and transparently communicated to the local government and to the population. Without that system it is a bit of a black box, and Governments can then use that black box to say one thing and, potentially, do another. I think that having that kind of transparency to make those trade-offs really apparent is the key first thing for the local government finance system.

Q73 **Nadia Whittome:** Last question from me, and please be as brief as possible in your answers. I will ask you first, Jonathan, because you referenced this in your previous answers. How does the local government funding system in England compare with other countries?

Dr Carr-West: That is quite hard to answer briefly. We have just published a very in-depth comparison with Germany, Italy and Japan, and I will make sure the Committee has that. Essentially, what we find in other countries is that there is more systemic certainty. It tends to operate on a constitutional level and these things are not decided, year by year, by the Government of the day. There is a set of responsibilities and a set of ways of funding them, so it is much more fixed.

David Phillips: Looking back to my last answer, one of the things about other countries is that there is quite often a clear set of rules or principles around equalisation. Rather than it being an ad hoc set-up, quite often it is a set of funds that are specially designed to redistribute, and it is clear what share of your need is redistributed for what share of your revenues. I think that is one thing where we could potentially learn from other countries: being very clear on the redistribution versus incentives.

It is also about keeping things up to date. Traditionally, England has had this idea of having it as redistributive and accounting for needs, but to not update it for 10 years—in many cases, it is pushing 30 years in some of the data—stands in contrast not just to other countries outside the UK but to other countries within the UK, such as Scotland and Wales, which have kept those systems up to date.

Nadia Whittome: Thank you very much.

Chair: Okay. Let's move on to issues of governance and financial management.

Q74 **Mrs Elphicke:** Quite a lot of what I was going to cover has been covered by the extensive responses, so thank you for that. I am going to focus my comments and questions to Paul and Abdool, because I will particularly be looking at the issues of governance and financial management. I find quite interesting the common nods on anything to do with the word "political", anything to do with the word "redistribution" and anything to do with the word "choice", so I will try to encourage you to avoid those three words as much as possible. I think we got a good feel of where you were on that but, in relation to local government choice, I want to particularly focus, Mr Dossett, on your very comprehensive report—and, indeed, other work in this area—where you comment on capability, capacity, expertise and culture all being lacking or challenging for local authorities.

I am also interested in the extent to which you touch on priorities, particularly priority not being given to funding back office and investing in resource capability. Bearing in mind that when it comes to a distressed authority, which is the focus of the inquiry that we have at the moment, some failings hit most on people who rely most on councils. I wondered if you thought, from a governance perspective, there was more that should be done in terms of stronger accountability for finances and stronger individual responsibility for failures when they go wrong, perhaps along the lines of the senior managers regime in financial services. More generally, how can a stronger, more responsible focus on finance, and on what we describe as back-office functions but are actually fundamental functions to good governance in any organisation, be strengthened?

Paul Dossett: I think there are elements of political choices about priorities there. What we have seen over the past decade is a bit of a mantra about services to the public and focusing on them, which is understandable. But we would argue very strongly that those services cannot be run effectively without the core back office—I am particularly thinking of finance, IT and other areas of support—particularly in terms of the capacity at senior level. We see a generation of finance directors and other senior roles where the gap, in terms of succession planning, is very worrying. There is a generation of people in a lot of those roles who could be broadly described as being in the autumn of their career, and the gap with the people coming behind them is quite worrying. Actually, the desirability of some of those roles, for the deputies and the people further down the organisation, is not as strong as it once was. For example, someone who joined a finance department in a local authority, say, 30 or 40 years ago would—once they had a taste for the work—aspire to become the finance director themselves, whereas we see lots of people looking at that role and thinking that it is too difficult, too stressful or too risky. There needs to be an investment in capacity and in ensuring there are enough qualified staff.

The other issue for me, and you raised the point about accountability, is that, when some these things have gone wrong, for some of those people responsible from the officer side in those key roles—the golden triangle of chief executive, monitoring officer and section 151 officer—there has not really been what I see as professional accountability. There may have been job accountability, and the person has moved on, but often they are moved to a different place, so we do not see professional action against someone who has not done their job to the right professional standard in any meaningful way. I do think there needs to be more rigour in that system on personal accountability.

Alongside that, there perhaps needs to be better job protection for those statutory officers. I think there was once much greater job protection. To enable those statutory functions, officers need to be able to speak very clearly to members and to say, "You cannot do this," because it is either breaking the law or it might involve a degree of financial risk that the section 151 officer is not comfortable with. They should be able to say that without any fear that there will be any comeback to them in that role. That is really important.

Q75 **Mrs Elphicke:** Thank you. Mr Kara, can I ask specifically about the monitoring of the sorts of issues that we have seen? When you are looking at the system as a whole and at how Government monitors and manages the performance of local authorities, particularly in relation to some of the systemic rather than idiosyncratic issues that we have seen arise, do you feel there is adequate oversight and monitoring, or do you think there are other things that could help Government better understand what is happening in local authorities?

Abdool Kara: We have reported on this. We said that, over time, over several reports, we have seen an improvement in the way that DLUHC as a Department has done two things. First, there is the granularity of its knowledge of what is going on in the sector. Of course, that is partly because there have been section 151s and other formal or informal best-value notices and so on. It has had lots of information-gathering meetings with individual authorities, so its granular understanding is better.

The second thing is the way in which DLUHC works with other Departments. Of course, the majority of local government spend—around 80% in non-district councils—goes on non-DLUHC services, such as adult social care and children's social care. In your question, you used the word "Government". I would say there are a number of different Departments involved, who have differing levels of knowledge of what is going on in local government, different levels of engagement, and different abilities to have conversations with the Treasury when it comes to budget-setting decisions and so on. DLUHC has a challenge in cohering that, which it is getting better at, but we do not think it has reached the end of the journey on that particular road.

Mrs Elphicke: Thank you. That is very helpful.

Chair: Let us move on to the prioritisation of spending.

Q76 **Ian Byrne:** At the last session, we heard from councillors about the unmanageable demand and cost pressures on children's services, homelessness and adult social care. Just to give you a flavour, Councillor John Fuller said, "in real terms, spending on social care has gone up by 23.7%," and Councillor Graham Chapman said the market is completely "broken". You have said, Abdool, that, "Simply put, local government's finance system cannot be sustainable until adult social care funding is resolved." What has gone wrong and why?

Abdool Kara: Everything you have heard so far. The fundamental drivers of cost increases are quantum of need and complexity of need on the demand side, and the cost of supply on the supply side. For example, specialist provision of children's social care has very high levels of inflation because it is essentially a non-competitive market. There is very little capacity out there of people with the ability, skills and training to be able to support children with those high needs.

Q77 **Ian Byrne:** Can we drill down a bit into that? Over the last 40 years, we have seen the privatisation of that sector completely, certainly in adult social care but also in children's services—80% of children's homes are now privatised. When we are talking about the need and demand for profit, is that a contributing factor to what we are seeing in the model? We touched on the model of council funding being broken; is the model of social care broken?

Abdool Kara: The NAO has not done any work looking at profitability within children's social care and children's homes, but there have been plenty of press reports about the level of profit that venture capital-type firms who have invested in this market have made. It is also true that the volume of need in children's services is higher, possibly, than it ever has been and certainly than it has been for many years. The original decisions to privatise may have been sensible because demand was at a manageable level, but at this point it has gone up much higher than people could have imagined—partly, as I said, because of covid, the cost of living and so on—and the market is inflexible and cannot respond in that way; that might be one of the reasons driving those profits.

Lastly, although you cannot go from zero to 100 overnight, some authorities are starting to rebuild in-house provision, but building the facility, getting it licensed and getting the right people in—that is a journey of two or three years.

Ian Byrne: Does anyone else want to come in on that?

David Phillips: I am not an expert on this particular market, but as an economist I would comment that privatisation works where you have effective competition, and that requires there to be multiple operators in a market. In services where there is the potential for large numbers of service users and where the economies of scale and production are not that great, so you can have multiple firms, maybe competition could work. In areas where there are big economies of scale because there are high fixed costs and the market is quite small—maybe in some very specialised things—that sort of privatisation is harder to get to work.

Rather than looking at this across the sector as a whole, you might want to look at it case by case. Which parts of the markets are the ones where there can be effective competition because there is sufficient demand, quantum and low enough fixed costs, and where you can have multiple firms competing, and which are the parts where only one or two firms could ever really compete, given the fixed costs? It is in that last part where the private sector is less likely to deliver value for money; in the first part, it is more likely to deliver value for money than it otherwise would.

Dr Carr-West: Just a couple of points. It is worth noting as well that, particularly in adult social care, we have also seen a lot of providers withdrawing from the market because there is not sufficient profitability. It falls over at both ends.

There is an important distinction between children's services and adult services. In adult services, some of that growth is more predictable. It also based on things that are in other ways good: it is good that people are living longer; it is good that people are thriving with complex needs with which, frankly, they would once not have survived. There is nothing good about the growth in demand in children's services. There is no upside to that, and—this is slightly tangential to your point—I think we need to do much more work on understanding what has driven that acute spike in children's services.

Ian Byrne: Paul, do you want to say anything?

Paul Dossett: No.

Q78 **Ian Byrne:** I will come to you now. Why are some councils struggling to balance their housing revenue accounts?

Paul Dossett: With housing revenue accounts, we have seen a number of challenges come home to roost relatively recently. The first is inflation, and we touched on inflation earlier. The general cost of doing things, in terms of maintenance of the stock, has gone up considerably from a revenue point of view in the last couple of years. We also have the longer-term impacts of the reforms coming from Grenfell and the work of the local housing ombudsman, which has absolutely focused—quite rightly—on quality, and they are driving significant extra costs. With capital costs, we all know that capital inflation is higher than revenue inflation, because of the difficulty in getting the workforce and supplies in recent times; that has really pushed that cost up.

I have spoken to a lot of local authorities about this, and they tell me that they are really struggling with workforce. Whether the workforce is in-house or outsourced, in terms of delivery of what is needed to maintain the housing at the right level, it has really become difficult, and the costs soar because there is a limited capacity.

I suppose that on the rent side of things—

Q79 **Ian Byrne:** There is a lack of workforce?

Paul Dossett: There is a lack of workforce, and there is also the quality of the workforce. According to the local authorities I talk to, whether the workforce has been outsourced or is in-house, this is a real problem in terms of productivity, efficiency and all those factors.

Obviously, on the rental side, a bit like the council tax referendum issue, we have a very fixed rental cap, which has not really kept up—although it has kept up with inflation as the Government measures it, it has not kept up with the cost-side demand. That is why we have had a couple of years now where housing revenue accounts are under real pressure.

Ian Byrne: Does anyone want to add anything?

Dr Carr-West: Only that, on the workforce, eight out of 10 councils tell us in our survey that they are struggling to recruit workforce for essential services.

Q80 **Ian Byrne:** When it came about, did Brexit have an impact on that, or is it—

Dr Carr-West: I don't know. I suspect that it looks very different in different parts of the country.

Q81 **Ian Byrne:** Interesting. The last question is for Abdool. It is just about preventive services. We have had cutbacks in early interventions. Just to drill down a bit into that, is value for money being impacted by local authorities cutting back on spending on preventive services—that is, early interventions?

Abdool Kara: I think that we would all intuitively say that prevention is better than cure; it is cheaper to intervene early rather than later and to prevent a fire rather than to put it out. That is our starting position.

The evidence on that is not yet strong. For example, we know that the various What Works centres and the professional bodies are trying to make that argument and show the benefits of prevention expenditure—for instance, the What Works centre foundation, which is the new name for what was the Early Intervention Foundation. The ability of Government Departments to have those discussions with the Treasury and to convince it that investing in prevention will either produce a return down the road or at least prevent further cost—

Ian Byrne: Both economic and social, surely?

Abdool Kara: Absolutely. I suppose that my final point would be that, even if there was the evidence—I say this as an ex-council chief executive—if you do not have enough money and there is a choice between funding a statutory service or a non-statutory service, and most prevention activity is a non-statutory service, both your legal risks and your regulatory risks are higher if you do not fund a statutory service.

Q82 **Ian Byrne:** And that goes back to the short-termism, doesn't it?

Abdool Kara: Exactly, back to the short-term point.

David Phillips: I think this is a really important point. I think that one needs to go beyond the financials for many of these preventive services, partly because, as Abdool was saying, sometimes the evidence is a little bit lacking at the moment and the Treasury will want hard evidence.

Secondly, sometimes where the evidence is there, it suggests that perhaps the financial savings down the line are not always, on their own, big enough to offset the up-front cost. For example, colleagues of mine looked at the impact of cutting adult social care on the subsequent use of accident and emergency. They found that it did increase that substantially, but not to the extent that that would offset the savings reductions. My point is that that does not mean, "Do not spend on adult social care." One needs to think about not just the financial impacts on local government, or even on the Government as a whole, but the impacts on people. Arguments around prevention need to be about not just savings for Governments, but how it improves people's quality of life and how it is important for social benefits. I think that sort of argument is more likely to be persuasive, rather than focusing on just the cost aspect, where the data is often lacking or sometimes is not even in line with what you might think it would be.

Ian Byrne: That is a really important point. Jonathan, before we finish, do you want to add anything?

Dr Carr-West: No, I have nothing to add to that.

Chair: We will move on to the role of the Department, DLUHC, which has been mentioned a few times—*[Interruption.]* Sorry, did you want to ask a follow-up question, Natalie?

Q83 **Mrs Elphicke:** Yes, quickly, if I may. We talked about the use of prevention, but I will just explore that in the context of revenue and capital expenditure. Obviously, we have a difference in how those are dealt with in different bands and the different periods over which those can be considered. I want to test slightly the assertion that has been made that it is not proven that expenditure in certain ways will not be a cost saving. If we take something like homelessness or investing in capital spend for temporary accommodation, within a very short space of time that does exactly what it would say on the tin, which is to cut overall costs. Actually, if you were, as Ian Byrne suggested, to look at the overall impact on other spend, it very clearly does reduce spend on other aspects and increase the equivalent of the productivity spend in the social sector.

There is good evidence there, and I want to explore that before we make an assumption. Yes, every non-statutory activity is discretionary, but the preventive is not necessarily not linked to statutory activity. What are your thoughts about this structurally? This might go to the multi-year, where we might be able to better demonstrate that spending A, B or C not only has good outcomes, but is actually financially better in these constrained times. I will start with you, Abdool, because you are nodding vigorously.

Abdool Kara: I think you point to a really important part of the funding system—I am talking here about Government generally, not just local authority funding—which is that savings from investment, whether that investment is capital or revenue, do not always fall to the body making the investment. Unless there is an effective system locally to distribute those savings back to the organisation, whatever it might be—it might be a local authority or in the voluntary community sector—why would they make that investment? We saw some attempts at this with the community budgets initiative in 2011 and 2012. We have seen a similar approach with what was Troubled Families—I think it is now called Supporting Families—where there are attempts to bring the wider public sector together and apportion those savings. To some extent we are seeing it with integrated care systems trying to do that as well. Have I seen it work well anywhere? Not really. I think that it is a real barrier to a potential seam of savings and, as you say, better services for individuals.

Dr Carr-West: Precisely that. Who is saving? I remember doing a report for the APPG on local government back in 2012, where we looked at the cost of local authorities putting in a grab rail: it is £20, you save whatever—15 grand—on a hospital admission, but the local authority does not. We still have not joined that up, so the system as a whole still lacks the flexibility to enable that invest-to-save methodology to really work.

Q84 **Mrs Elphicke:** The reason why I wanted to develop that is that obviously we are having a session on local authority finance in particular, but it cannot be detached from those other issues if we are going to try to get better outcomes for individuals as well as value for money on that basis.

Dr Carr-West: That’s true.

Q85 **Mrs Elphicke:** Very quickly—otherwise, I will get in trouble on timing—David, did you want to come in?

David Phillips: I wasn't saying that there are no instances of investing to save; it is just that sometimes the things that might be expected to deliver that do not always give financial savings on their own. There are many instances where invest to save does pay for itself, but there are other instances where that is part of the story, but another part of the story is that it is important in itself because of the quality-of-life impacts on the population.

Q86 **Mrs Elphicke:** Thank you. Paul, did you want to add anything? ***Paul Dossett:*** I have just one comment about local authorities' capital programmes, because I absolutely take the point. I think there perhaps needs to be a bit more rigour in the way capital programmes are managed. The revenue budget is scrutinised very tightly, but the capital programmes need a bit more rigour, in terms of member oversight and performance management.

Chair: Let's move on to the role of the Department.

Q87 **Nadia Whittome:** We have spoken a bit about causes, but what should the Government prioritise right now to address the risk of further financial distress to local authorities?

Abdool Kara: Let's go back to the three main demand-led drivers. On adult social care, we know that we have a massive workforce issue—150,000 vacancies in adult social care. We know that there are over 80,000 households waiting for an assessment—double what it was a few years ago, pre-pandemic. It is an area that is highly labour intensive—it is hard to substitute labour for capital in social care. It is hard to move away from the idea that there is not enough money in the system. Even the Care Quality Commission—a non-departmental Government body—said that in its annual report, so I do not think it is controversial to say that.

The single biggest issue driving increased homelessness—not the only one, but easily the single biggest—is local housing allowance rates. The freezing of local housing allowance rates does two things: it creates more people who are homeless, because their housing benefit cannot afford rising rents, but more importantly it means that local authorities cannot discharge their duty towards households once those people are homeless, because they cannot find them properties in the local area that are within the local housing allowance rates. Again, we know that that is an area that many in that field are pushing on.

For all the reasons that Jonathan set out earlier, children's is a much more intractable issue. It is very hard to be absolutely certain about what has driven the numbers, so there is probably less we can do on the demand side there. Can we make the market more competitive? Can authorities invest in their own provision? Can we find non-high-cost interventions? We know that CAMHS—Child and Adolescent Mental Health Services—has been an underfunded service for years. I think children's is a harder area to find simple answers for.

Nadia Whittome: Thank you. Jonathan?

Dr Carr-West: I think all of that. Some of this, such as multi-year funding settlements, is not within the Department's gift, but we could stop the competitive funding bids. Even the people who win them dislike them as a method of funding, partly because no one wins them all, so everyone who has won some has also lost some.

Huge amounts of time and money get spent on bids that don't necessarily speak to strategic priorities. That is a burdensome red tape process that could be cut out. Every funding formula creates winners and losers, but most people within the sector we speak to feel that they would rather lose a bit and have certainty with an imperfect funding formula than never know from year to year, so we should go back to the funding formula, as people have said.

Finally, the level of communication between the Department and local government is really, really poor at the moment. As I said, I interviewed over 60 council leaders and chief executives over the summer. When you ask chief executives, "Do you feel confident that you can just pick up the phone and speak to someone senior in DLUHC?", they say, "I have no idea how I do that, no." Establishing some sort of more effective forum for local government and the Department responsible for it to talk to each other would also be a really useful step.

Nadia Whittome: Thank you. On to Paul next.

Paul Dossett: The only additional point I would make is that, where DLUHC has intervened in particular cases, it has assembled commissioners of high quality to do that work, and maybe there needs to be a wider circle of people to do some preventive work. We talked about prevention in a different context, but I think a preventive panel of experts to help to support local authorities with initial challenges, rather than just going in when things have actually gone wrong, would be quite helpful.

Nadia Whittome: Thank you. David?

David Phillips: I think there are a few things. I am not sure that the Department can provide certainty, but I think it can provide clarity, which is a slightly different issue. For example, I do not think it can provide certainty, because what a fixed three or four-year settlement is actually worth could vary a lot depending on how high inflation turns out to be, and whether it is feasible will depend on what is happening to the economy more generally.

But the Government could potentially say, "Here is a minimum amount, and here is how you respond to circumstances," so that there is clarity about what would happen if inflation is higher than expected or lower than expected and if the economy turns out better or worse. Certainty on cash amounts could actually mean less certainty about what you can pay for out of those, but clarity about how the system responds to events is something that the Department, and the Government more generally, can do a better job of.

In the very short term—clearly there needs to be a decision about the use of this funding, if it is used at all—there is £13 billion as an allocated reserve in both the 2023-24 and 2024-25 overall funding envelopes. Now, there will be other pressures on that; there could be pressures from the health service or ideas to use it for other things, such as on the taxation side of things. But there is a decision that needs to be taken on what, if anything, to do to change the total funding for local government in this year's settlement or next year's settlement, which will be published in December.

My own view is that the Office for Local Government and the data it is collating—it is potentially starting to collect new data as well—could be a force for good in the sector. I know that there is a lot of concern and worry in the sector that this data could be used to make bald claims that certain councils are failing or being inefficient, and those could be misunderstood.

But, at the moment, we do not have very good data about how different councils are performing in terms of their outcomes or efficiency. Done well, the collection of this data and making it available to councils and researchers could allow us to learn a lot about innovations in productivity and efficiency across the sector and the factors associated with them, which could help to spread best practice across the sector.

Even in the context of a sector that has clearly seen big funding cuts—it has, if you like, identified and trimmed the obvious fat, and cut into a lot of the muscle—we know from other services, such as health services, that even the use of things that are well known to be highly effective and to save money, such as stents or medication for high blood pressure, still varies substantially across hospitals or doctors. I am sure it is the same in local government. I am sure there are still lessons that could be learned, and I think the data at the Office for Local Government can play an important role in that lesson learning across the sector.

Q88 **Nadia Whittome:** I am going to come back to the point about the Office for Local Government. Before I do, would you agree that surely the biggest factor in the financial distress to local authorities is the fact that local government has been cut to the bone—by about 20% in real terms, which is the largest in all the public sector? Therefore, costs are outstripping revenues, and the only solution, or an unavoidable part of the solution, is for the Government to increase local authority funding.

David Phillips: In the medium term, clearly there needs to be a plan to make sure that the expectations of what local government provides and the funding either made available to it or that it can raise itself are in alignment, or can be brought into alignment. In the short term, there is this reserve that has not been allocated to particular Departments.

I am sure there are lots of requests for that in the period running up to the autumn statement, but local government could be one of those that is putting in requests for a share of that funding. But, yes, in the medium to long term, if you do not have a level of funding that is sufficient, given expectations and given reasonable levels of productivity, you are going have to either cut back services or see quality degrade.

Q89 **Nadia Whittome:** What do you think the role of the Office for Local Government should be in supporting local authorities? Did you have anything to add before I move to the rest of the panel?

David Phillips: No, just that I think there is a potential for the Office for Local Government's data to be misrepresented or misused. But I actually think it can also be a force for good, particularly if it works with researchers and the sector and engages in not just headline descriptive statistics about these costs, but the factors underlying them and what can be learned from impacts, partly within local government, on initiatives and doing experiments. I think there is a lot we can learn from the data being collected.

Nadia Whittome: Thank you. I will move to Jonathan next.

Dr Carr-West: I agree with that. There is a lot that Oflog could do that would be useful, although we do not yet know whether that is in fact what it is going to do; for most people in the sector, it remains a bit of a mystery. If we are going to have DLUHC, Oflog and the LGA, personally, I wonder how exactly we are going to split data and intervention across them. I fear slightly that it is the British disease that if we cannot make something work, we invent a new institution or a new structure rather than fixing the ones we already have.

Nadia Whittome: Thank you. Abdool?

Abdool Kara: I suppose I should say that I worked at the Audit Commission when that existed. I ran quite a lot of our local government-side data, as Oflog is trying to do now, so I have something of an insight.

I think it started off with a role that is broadly about benchmarking, which can't hurt, unless it is adding burdens to the sector, which broadly it isn't; it is trying to use existing measures. That is a good thing. I suppose the LGA would argue that their LGA insights already does that, but that is not for me to get into. If it goes further and actually shares good practice—you know, "Here's a good model of doing x, y, z service"—that can't be a bad thing at all.

I suppose the big question is that in the press reports and so on, it has talked about whether it can prevent failure, which I think is an incredibly difficult thing to do if you don't have boots on the ground. If we look at the distress—the acute distress, as opposed to the underlying systemic issues—we have seen interventions for either illegality, for example at Tower Hamlets or Liverpool, or incredibly poor commercial decision making, as Paul spoke about. These aren't things you can tell by a key performance indicator. I would say that a big challenge for Oflog will be how to gather the intelligence to be aware that those things are happening and posing a risk in a particular authority.

Q90 **Nadia Whittome:** Thank you. Do you have anything to add, Paul?

Paul Dossett: The only thing I would add would be to emphasise that the reality is that if it is people who make decisions, not data, then data is helpful to provide insight into decision making; however, if you're going to provide more oversight and scrutiny, then it has to be about the people on the ground doing some of that work. As Abdool said, the Audit Commission used to have that function. We do not have that function in the same way any more.

To some degree, Oflog is another benchmarking service, and there are other benchmarking services available. I am sure it will be useful in part, but I do not see it changing the dial particularly.

Q91 **Nadia Whittome:** Thank you. I have a question just for Jonathan. What impact does Government intervention have on local authorities that issue section 114 notices, and what impact does that have local residents?

Dr Carr-West: The first thing we should say is that in the long term, we don't really know, because this did not happen until very recently—Northamptonshire in 2018 was the first time this had happened since Hackney in about 2000, I think.

Abdool Kara: Yes, 2000.

Dr Carr-West And that was very different and more limited. So we do not know what the long-term impact is.

What we have seen in places such as Thurrock, Croydon and Slough is significant job losses and services cut to very bare minimums. We have seen council tax go up by 10% in Croydon and 15% in Thurrock. We have seen capitalisation directions, which have led to wholesale selling off of councils' assets, and there is a question about the fact that that is public value that is now in non-public hands. I think the long-term impact of that remains to be seen. In the short term, I fear that it is a triple whammy for residents: they pay more, they get less and they have less democratic control.

Q92 **Nadia Whittome:** Do you agree with the evidence that Stephen Jones, the director of Core Cities UK, presented to this Committee—that on cases where the challenge is fundamentally about costs outstripping revenues "someone else coming in and sitting around a table" is not going to solve that?

Dr Carr-West: I do not entirely agree. It might to some extent because commissioners are not subject to the same democratic requirements: they do not have to win the votes of the people of that city so they can act more ruthlessly than elected leaders would ever be able to.

Furthermore, it is not just new people sitting around a table because they get the ability to use capital money to fund revenue. If you get a capitalisation direction, that is a change in the terms of engagement. I do not think that it is simply about having new people, although I think that can help. Those people are playing with slightly different rules.

In the short term, if the question is “Can commissioners move a local authority closer to a balanced budget?”, I think they can. What would the long-term cost of that be? We will find out.

Q93 **Nadia Whittome:** Finally, in your view, Abdool, do the Government understand the impact of funding reductions on the financial and service sustainability of local authorities?

Abdool Kara: To go back to a point I made earlier, the Government are clearly not a single entity. The relationships between Departments, and between Departments and the Treasury, vary enormously, as does the attention that can be paid. Adult social care is a massive issue for local government. It falls under the DHSC. It is a relatively small amount of what DHSC does, with health and so on. The amount of attention paid to things varies.

In my view and as the NAO has reported, DHLUC has got better at engaging with the sector and understanding the potential consequences of financial decisions as far as the local government financial system is concerned. Does it have all the levers and the relationships with other Departments—like DHSC, DfE, or with DEFRA on waste for example—to ensure they are also making the case for local government funding for their responsibilities? That is much less clear. How that system coheres into a single settlement is perhaps as much art as science come the autumn settlement season.

Nadia Whittome: It sounds like the overall answer is no.

Q94 **Chair:** You mentioned that one benefit of section 114 is the extra flexibility that comes from being able to capitalise some costs. Why could that not just be given to a council without putting commissioners in?

Dr Carr-West: That is a very good question.

Paul Dossett: The Government had a programme. The programme exists for using capital receipts to fund revenue if the council is able to demonstrate benefits from that investment. We have seen that work quite effectively in some councils when they have used capital receipts to support transformation programmes. That programme has been running for a while but obviously each local authority only has a certain availability of existing capital receipts. That programme was a good initiative. Unfortunately, in the cases of some councils that are in the section 114 situation, some of that was perhaps misused and ineffective. But that says more about the governance and control in those particular bodies than a problem with the initiative in itself.

Abdool Kara: Paul, you know more than me, but there is a core accounting requirement: you cannot use capital to support revenue. You can use revenue to support capital. You need a specific derogation for individual authorities or circumstances.

Q95 **Chair:** My question was: why can’t you give a derogation, rather than bringing in commissioners?

David Phillips: I think that happened a little bit during covid. I think there were a small number of councils that got those derogations while having their councils still in place.

Dr Carr-West: The answer is—although we are encouraged not to use these phrases—that that is a political choice.

Chair: On that point, we will leave it. Eventually we will have to make political choices in our report about what we recommend.

Thank you very much indeed for coming in this afternoon, giving us answers on a wide range of really quite important questions and looking at the challenges that we are all going to face as we go ahead.

Examination of witnesses

Witnesses: Bob Watson, Steve Thompson, Gary Fielding and Lorna Baxter.

Q96 **Chair:** Good afternoon and thank you very much to our second panel for coming. You are all local authority officers, representing yourselves and individual councils. Perhaps we could go down the table, and you could say who you are and who you are representing this afternoon.

Lorna Baxter: Good afternoon, I am Lorna Baxter. I am executive director of resources at Oxfordshire County Council and the section 151 officer. I am also chair of the Association of Local Authorities' Treasurer Societies, which brings together all of the presidents from the societies across the UK.

Bob Watson: Good evening, all, I am Bob Watson. I am the strategic director of finance and customer services at Surrey Heath Borough Council.

Steve Thompson: Hello, I am Steve Thompson, director of resources at Blackpool Council. I have been the statutory finance officer there for 12 years.

Gary Fielding: Afternoon. I am Gary Fielding. I am the corporate director of resources for North Yorkshire Council, one of the four new unitaries created on 1 April this year.

Q97 **Chair:** Thank you very much for coming. I will go down the table again in the same order, putting the same question. Is your council at risk of imminent financial distress and, if so, why is that the case?

Lorna Baxter: My council is not, currently, although there are significant challenges. Those challenges are the ones already referred to this afternoon, and in fact last week.

With 10 years of austerity, there is more susceptibility to financial challenges, because less funding is available. Linked to that, there are increases in demand, particularly in adult and children's social care, as well as inflationary increases, which are leading to difficulties within those markets. The market for children's social care is broken. We heard earlier about the cost of providing placements. In some councils, those costs—for exactly the same sorts of placements that we might have put those children in previously—have increased by over 30% in the last two years.

Those are the key issues and where the local authority is. Oxfordshire is not in the same place that some authorities are in because of the difficult decisions taken in the past 10 years during austerity, but also the fact that there is good governance in place across the organisation. That is one of the key things that we need to ensure is in place to deliver effective services.

Bob Watson: My council is not in immediate financial distress. Like many other councils, it is predicting a use of reserves over the medium-term financial period, and the burn rate of those reserves is probably unsustainable into the medium to long-term future.

Steve Thompson: Likewise, Blackpool is not in financial distress, but the trajectory is not encouraging. Up until 2022-23, we had taken £195 million out of our budget, and our gross revenue spend is about £500 million a year. There was some incredulity in parts over how we could deliver £195 million out of £500 million.

We did a significant forensic piece of work last year, which went into some detail and picked out those three drivers. Reductions in Government funding amounted to 27%, which feels about right, because I can remember the days when the revenue support grant equivalent was in the £90 millions; it is now £17.5 million. In addition to that is the effect of inflation. That figure is some 37% of that total; really, it is the last 12 months when inflation has started to ratchet up. As Lorna said, children's social care is experiencing about 15% a year, and has done for the last three years. Thirdly, demand represents 39% of that £195 million—and you do wonder whether the 61% of cuts may well have fuelled that demand. Is it cause or effect?

Again, we are seeing huge increases in children's social care, and we are seeing pressures starting to emerge for adults. We have been behind the curve compared with most local authorities, and ditto with homelessness. As you can imagine there is a very significant supply of private-rented sector accommodation in Blackpool, together with social housing, but the pressures on that service are starting to take their toll. Last year, we had 3,200 presentations of homelessness, and the year before it was 2,800. We are seeing a further increase in 2023-24. It is a very difficult climate.

We are where we are, with some of the biggest cuts per head of population, not just within local government sector but across the public sector—be it in health or across benefits, the DWP, and so on—but with a very strong governance regime in place. I would also throw in collaboration—some of our collaborative partnership arrangements with health, through the integrated care board; with our own services, companies, schools, and academies; with the private sector, such as with Merlin, one of the biggest entertainment operators in the world, which manages our Blackpool Tower and Winter Gardens. There are numerous collaborations in place, and that too has really firmed up our position. But as I say, the trajectory is not encouraging.

Q98 **Chair:** Briefly on that—I will come back to the other witnesses—will you have to make further cuts next year and use reserves?

Steve Thompson: We will make further cuts, but I do not wish to use any reserves if I can help it. We are around the £30 million mark, which I feel is just about on the lip—I would not like to use any more. Yes, at the moment, we have got a significant budget gap to find. Of course, we will not know what our actual settlement is until the week of Christmas.

Q99 **Chair:** Right. This is to both: what is your current problem and what do you see for next year as well?

Gary Fielding: My council is extremely financially challenged. However, we will not be in financial distress, for reasons I will come to in a moment. To make a general comment, like a number of us at this table, we talk to colleagues, and I would say that, as some of your previous witnesses have said, we have moved from having one or two councils, with particular issues—whether it is maverick behaviour or leadership—being affected, to having what I regard as good councils, run by good officers and with political stability, now facing existential challenges. I think it has moved on.

The reason why I say that we are not financially distressed is that we are unique. I take you back to my earlier statement: we are one of four new unitary councils. I estimate that we have about a £70 million gap to fill over the next four years. We are pulling together a plan that, essentially, cashes in the dividend that has been derived from unitarisation. I think that is between £30 million and £70 million, so we are cash-flowing our way through that, buying time to produce plans. It will be hard, but I think that North Yorkshire Council has a way through because of unitarisation. I would not want to be in the shoes of my three colleagues here, because they are not with that particular opportunity, but it is particularly helpful to us and North Yorkshire.

Q100 **Chair:** Bob Watson, briefly—next year, use of reserves, further cuts?

Bob Watson: We have a challenging budget process, which we are entering into right now. There is a budgetary gap that we have to meet through, potentially, cuts to discretionary services or efficiencies. Over the past two or two-and-a-half years, we have embarked on a number of efficiency measures, where we have taken costs out of the organisation without cutting services to the residents and businesses of Surrey Heath. It is likely that, where we are, we will now have to look at some of the discretionary services.

Over the past, we have also built up levels of earmarked reserves for just such a case as we are starting to see with some of the higher interest rates coming through. We are using those reserves, and we plan to draw them down to smooth the impact of the budgetary gap being eradicated over the four years. This year, we have a balanced budget by use of earmarked, and next year we will have the same situation. We have sufficient reserves to take us through to the end of the four-year period, but it is challenging and some difficult decisions will have to be taken.

Q101 **Chair:** Lorna, will you speak briefly about that? Also, what about the wider picture, from your role at the treasurer societies? Are you seeing councils in general starting to struggle now, as you get feedback?

Lorna Baxter: There is a very mixed picture. From the comments made, we are beginning to see a number of well-managed local authorities beginning to struggle financially. The biggest areas that are causing concern, we have already made reference to: adult social care, children's social care, housing and homelessness, particularly in London and the mets, are causing significant increases in costs.

In a survey recently undertaken by ALATS, there has been a 54% increase in the costs of housing and homelessness in the past two years. That has obviously led to significant challenges, with councils trying to manage their budgets with that sort of increase, compounded by—for an authority with both upper and lower-tier responsibilities—the pressures on adult and children social care. That provides a very challenging position.

It is probably also worth mentioning SEND and the challenges being faced across all 152 authorities on SEND—not only the deficits in-year, but the accumulating deficits, with the statutory override coming to an end. We expect a deficit of about £3.6 billion across the country by the end of the statutory override. That is another challenge that local authorities have to face, if it comes back on to the balance sheet. That is a bit of a no-brainer on the statutory override: the money has gone, the money has been spent—the statutory override is in place, but the money has gone. Therefore, that is a real issue for local authorities to manage. I am aware of one county, for example, that is having to borrow to pay for the deficit, because that will be a reduction in cash. Significant issues are beginning to materialise across all sectors that are struggling.

Q102 **Chair:** Steve Thompson and Gary Fielding, do you feel that social care and SEND are particular pressures and problems? Does that mirror what you have seen?

Gary Fielding: Absolutely. I am seeing a whole host of issues. I would describe it as a perfect storm, with SEND, adult social care and children's placements all climbing at the moment. There is some commonality: in part, we have a disrupted market and a dysfunctional market in most areas, with supply and demand out of kilter and not enough money chasing not enough places, so prices go up. We are seeing incredible increases in levels of complexity. Just picking up what the previous witnesses said, I think there are demand increases, but the thing I am observing more is the complexity of need that is presenting, and therefore the cost of that. Our most expensive older person now costs just over £500,000 per annum because of dementia and special needs support, and we now have a young person who costs just short of £1.5 million per annum. Those were unheard-of sums beforehand, but it is because of the complexity, the greater diagnosis, the advances in medicine, the advances in care. Those are to be celebrated, but they come with financial challenges. We are seeing all those areas.

The other point I would make about SEND is that it is seen as a DfE issue. It is funded through dedicated schools grants, which are ringfenced. Like Lorna, I think that professionally we are derelict in our duty by just parking it there and not tackling it. However, it manifests itself to local authorities in other ways too. I will give you an example. Five years ago, in North Yorkshire we spent £5 million a year on SEND school transport; we now spend £21 million—it has gone up by £16 million. That is not funded by DfE through schools; it is funded by core general funding. That is £16 million in a five-year period, so we are under great strain, and that is before we have to address the deficits on SEND.

Q103 **Chair:** Steven?

Steve Thompson: Children's social care is my main priority. Since we were given an inadequate Ofsted opinion back in 2018-19, we have seen a doubling of the children's social care budget. As Gary says, there are some very expensive young people in there. I have seen figures as high as £30,000 per week. That is a cost shared with the NHS, but it is an almost incomprehensible sum—how can £30,000 a week be justified? Ditto with SEND home-to-school transport, which is showing a £750,000 overspend.

To put a positive on this, our children's services now have a very stable workforce. In the past, we have had agency levels of up to 40%. We are down to 15% now, so you now have a substantive workforce, a change in culture, and people with a stake in the future. The non-agency staff are—dare I say it?—more risk averse: they try to find solutions that bring children back to their parents or the family network, rather than put them in high-cost residential placements, which on average cost £300,000 a year. There are some significant departures from that.

Q104 **Ian Byrne:** What is driving the changes in council spending on homelessness and temporary accommodation?

Lorna Baxter: My understanding is that a lot of it is to do with the use of commercial hotels; that is part of the issue. The increase in the nightly rates is being driven by the Home Office, which is also using those hotels for asylum seekers. Serviced apartments, which have higher costs, are used because there is a lack of alternative provision. There are economic factors around higher interest rates. Rates are increasing for people who own the homes in which people are being placed, so landlords are taking their properties off the markets.

The significant increase in homelessness presentation has been raised. From what I am hearing, a lot of it is to do with the expectation, in terms of what has happened as a result of covid and the cost of living crisis. That is resulting in the increased number of presentations.

The prices for temporary accommodation can be as high as £2,000 to £3,500 per week for one family, so that is very significant, in terms of the additional costs that can be borne. An example that was quoted in the press last week, I think, is that Hastings spent almost half its core budget on temporary accommodation last year—up from £750,000 in 2019 to an expected £5.6 million next year—so there are really significant impacts in that area.

Q105 **Ian Byrne:** So even with the increased spending, you are seeing homelessness on the rise within your local authority?

Lorna Baxter: Oxfordshire County Council obviously doesn't have responsibility for homelessness, but the information I have had from London and the Met shows there is at least a 30% increase this year alone.

Q106 **Ian Byrne:** Bob, Steve, Gary—does anyone want to come in on that?

Bob Watson: We as a district, a second-tier authority, are starting to see presentations going up. We see very much the same issues as Lorna has outlined. The cost of prices is going up. The cost of living crisis has impacted on people paying private rents and they are now presenting as homeless. We in our borough have not seen it quite the same as some of the other Surrey boroughs, but we are starting to see that increase. Last month's statistics showed that people presenting to our council offices actually doubled over that month, in terms of people coming in. Again, that is driven by cost of living pressures for individuals. We have the cost of prices going up with hotels. The price of hotels has gone up, driven by demand going through. And we are now starting to see that some of the hotels have been closed by central Government and these people are presenting to the local authority as homeless.

Ian Byrne: Gary?

Gary Fielding: In North Yorkshire, we are seeing a £1.4 million overspend on homelessness in the current year; that is what we are projecting. I am going to be like a broken record, I suspect. For me, it's about supply and demand again. We have a lack of supply and we have demand for a whole range of initiatives, whether that be in relation to Ukraine, asylum seekers or unaccompanied asylum-seeking children. There is just not enough housing and it is being taken. And what we are doing as a council—

Q107 **Ian Byrne:** But it's not just a refugee crisis, is it? There are many other elements of this as well.

Gary Fielding: No, it's right across—it's a combination of all of that. And we already know that people struggle to find housing to start off with, before we start this. It is supply and demand. While the witnesses were speaking previously, I was nodding, because I was recognising that we are looking, as a council, to get back into doing more and more provision, because, whether that is through adults or children, or in relation to homelessness, we need to provide some supply and we need to stimulate that somehow—

Q108 **Ian Byrne:** From a council perspective?

Gary Fielding: From a council perspective, yes, and working with partners. We will need to do that, because all we are doing at the minute is that we are taking up housing for one particular need, and then it's just moving around the system, but we are not actually solving the underlying issue. And it's being inflated.

Chair: Can we have brief answers now? And if you agree with what someone has said, please do not repeat it. We want to try to get through the rest of our subjects now.

Steve Thompson: In terms of preventive measures, which we talked about earlier, discretionary housing payments would be one solution, but we have seen a reduction in our allocation of that. It has helped residents, helped with homelessness, in the past. Also, there is the freezing of local housing allowance, which was mentioned by the previous panel. When rents were below that, it was okay, but rents have started to rocket.

Q109 **Ian Byrne:** Can we just touch on and have a really quick answer regarding deprioritisation? Which spending areas have you had to deprioritise with what's happening? You have talked about the impact in terms of housing. Those additional costs mean that other areas have to be cut. Do you want to just outline quickly what you have had to do?

Steve Thompson: The focus is on statutory services: 75% of our net budget is spent on social care—children and adults—and 11% is spent on waste. That is 86%, and you have other statutory services: public protection, planning and so on. And some of our most important services, like the Illuminations extension—it is all about economic regeneration and keeping people in jobs. That is a discretionary service that members would not wish to cut.

Chair: Let's move on to the issue of commercial activity.

Q110 **Mrs Elphicke:** Looking at commercial activities, Bob, you are obviously going to be slightly in the chair on this, but I want to look at it more broadly. Is there such a thing as a non-risky commercial activity? How do you think risk should be managed around that? And how do you think that risk is being managed within its regulated environment? Do you think, for example, that there should be guidance or caps on how much debt leverage there can be over time? Or do some of these things just amount to good or poor governance issues, rather than being about a structural issue or a particular activity spend? There are a few bits there. I am conscious of time and I would be grateful if you would pick up as many of those as you would like to answer as we go through. Gary, can I start with you?

Gary Fielding: Is there such a thing as a risk-free commercial investment? I would suggest the answer would be no, because you get reward for taking risk—that is the continuum you have. I think it comes down to judging where that needs to be, so I would start off by saying that the reason why more councils became more commercially astute was that they were short of money and looking to generate income in order to stop needing to cut services. We need to remember that.

But I think there are skillsets in some councils. For example, some of us manage pension funds. The pension fund I manage is worth £4.6 billion, and that is commercially invested; it is on the pension funds. There are skillsets, and there are specialists involved in it, so I think there is a skillset there. For me, though, the issue is understanding what the objective is, being clear as an organisation about what you are trying to achieve, and being clear that you have assessed the risks and the rewards, and that you have the necessary expertise to help you reach that view.

Q111 **Mrs Elphicke:** Before I move on to Steve, you mentioned going back to supply, which in itself obviously involves commercial activities. Have you satisfied yourself that that is the right move for your council?

Gary Fielding: We haven't yet moved into that area; we are working on business cases. Austerity has been a challenge for councils, but I think austerity has actually been partly good for councils as well, because what it has done is sharpened thinking in terms of what a good investment is and being clear about value for money. Business cases are being pulled together, and I would suggest that even the threat of getting into that market will shake up the market. Some of it we will need to intervene in, and some we will not, but it needs to be done—you are absolutely right—with eyes wide open, with risk assessments and not just thinking, "Because I've thought it, it's going to happen." There will always be unintended consequences, and you will need to be monitoring it and learning. You should not be closed-minded about that.

Mrs Elphicke: Steve?

Steve Thompson: We have a £2 billion regeneration agenda in Blackpool. Many people would look at that and say, "That's commercialisation," but most of that is grant funded through effective collaboration with central Government Departments. We have been talking about Oflog performance indicators, and we currently have a total debt of £400 million. We are building—it is nearly built—a civil service hub for DWP, which will add £100 million to our debt profile on a pre-let that the civil service will be paying for, so it has increased our debt by 25%. Is that bad? I would argue not, but we are not in a risk-free environment.

Nobody knows where interest rates will land. Only last year, we locked in £125 million of long-term debt at 3%, because we thought that was about the peak. We are now at over 5%. We are not getting any steer from central Government, the Treasury or the Bank of England, so at the moment our strategy is 50:50 long-term and temporary borrowing, because we have no idea where they will land. But managing that regeneration agenda at the same time is difficult with interest rates so volatile.

Q112 **Mrs Elphicke:** Bob, is there poor decision making and governance, or are these commercial risks manageable?

Bob Watson: I think it is key to understand why some councils, particularly in the south-east, took what they deemed to be commercial investments, and I will come on to whether they are commercial or not in a second. In 2014 we were given general powers of competence to go and do things—it was almost a green light from the Government to invest in things like that. At the same time, we saw a drive by councils in the south-east to become self-sufficient—not through any desire of their own, but because the Government funding fell away completely. We now receive our own council tax take. We now get to retain some of our business rates—I say "some" because business rates retention has not really impacted a great deal on my borough and the other south-east authorities I have worked for previously. Councils did look at other ways to make income to provide services, and this was not driven by any profit motive at all. This was a desire to provide services to the residents and businesses of the boroughs and districts around the area.

Key also to that—this is where I talk about whether it is commercial or not—is that it is done for regeneration and civic amenity. As a local authority, we talk about protecting the local economy, and about regenerating and protecting our town centres. What we did as a borough was take ownership of a town centre that potentially or probably would not be there now if we had not done what we did. So, yes, a lot of it gets tied up in our councils being commercial, but we are also protecting our local residents' civic amenity and the benefit of having a town centre within our area.

Is it too risky, as Gary mentioned? Proper business cases, proper whole-life costs around where you go to—I was not around when Surrey Heath took its investments. If I had been, would I have done anything different? Probably not, because we have those business cases in there—we have the reason for it. Perhaps, with 20/20 hindsight, you would say, "What is the downside? Where is the downside?" There was a certain euphoria around, "Yes, we are bringing in money", and when the money came in, it was not just frittered away—it was used to support services. It was actually used to create a reserve that allowed us to equalise some of our interest payments now. Similar to Steve and where they are with their debt profile, we locked in £50 million of debt at under 3%—I will not get into one-upmanship, but it's just slightly under. We still keep a mixture of short-term and long-term debt. The reason we keep the short-term is that we were benefiting from some really, really low interest rates. We are talking about sub-20 basis points on some of those short-term loans—far below what the PWLB was doing for long-term debt. We banked the benefit of that. We are now using that to pay for the current high costs of those interest rates. But it is something that we did not for commerciality, but to try to protect services and to try to give a town centre to residents.

Q113 **Mrs Elphicke:** Thank you. I appreciate that full answer. Lorna, I am afraid I am going to have to ask you for a short answer.

Lorna Baxter: Very short, because I do not want to pick up anything already said. One thing I want to mention is that changes in the prudential code and borrowing from the PWLB will ensure that those sorts of activities which are classed as commercial rather than economic regeneration will not be able to happen going forward. For me, it is really important to have strong decision making, robust structures, effective systems and really good business cases, and to be very clear about the decisions you are taking and why you are taking them in that framework.

Mrs Elphicke: Thank you. Very succinct.

Chair: On to the issue of Government financial management.

Q114 **Mary Robinson:** This follows on very much from the theme we have had, because we have been speaking about "commercialisation" and "risk/reward". Clearly, these are terms we would normally see in the private sector, in the commercial world—"market-driven", et cetera. Within local authorities, obviously the risks are higher—that is how we perceive them. How do your councils ensure effective financial oversight and scrutiny of the decisions you are making? Do you employ any external expertise in doing so? Let's start with you, Lorna.

Lorna Baxter: I have touched on the basics of good governance already—effective systems and structures. That is really important. It is important for the Nolan principles to be applied in local authorities. I don't think enough attention is paid to that, or to ensuring that there are good communications and relationships between senior officers and elected members. They need to be able to challenge each other about why decisions are being made. The importance of the power of the three statutory roles in terms of their legal powers, but also their role in supporting good governance, was touched on in the earlier session. Also important is having a strong senior management team that is transparent, accountable, mutually supportive and challenging, so that you have all of that in place as well as ensuring that you have things like a strong and effective audit and governance committee, good scrutiny and oversight committees, and strength within that framework.

Q115 **Mary Robinson:** Do you pick up on whistleblowing procedures and culture as well? It is relevant to previous councils which have had some issues.

Lorna Baxter: It is really important to have very strong whistleblowing procedures and to ensure that there is impartiality and a culture where people feel that they are able to whistleblow and that, once that has happened, each instance is considered, taken seriously and reported back to the individual, if that is applicable and possible.

Q116 **Mary Robinson:** Thank you. Bob?

Bob Watson: Everything Lorna just said. In my authority, we have very strong governments through our scrutiny processes, and there is involvement with the members on those sides of things. I feel supported as a section 151 officer in my council, but I will leave it out there that in 2016 they took away some of the protections for section 151 officers, and suddenly we saw a number of 114 notices. I will leave it for you to decide whether that is connected or not.

Q117 **Mary Robinson:** That is really relevant because we heard earlier about the issues around people being supported in those roles. Steve, I will come to you on the issue of getting in external expertise. Is that something that is happening?

Steve Thompson: Absolutely. In all our regeneration ventures and business loans, which have been predominantly to major hotels in the town, we do not have that expertise. We have brought it in. My philosophy is one of transparency. We produce monthly reports that have been in the public domain, which capture revenue, capital monitoring, balance sheet, cash flow, and so on. That undergoes scrutiny. We have internal audits that, although reporting to me, are totally independent. I often get criticised myself, and I accept that from a risk-based internal audit approach. If I had one criticism of the financial governance framework, it would be around local public audit, where we are still waiting to have our 2021 accounts signed off. I tell my audit committee members, "You are statutorily charged with financial governance, and yet you don't have that external opinion and oversight and assurance." That does concern me.

Q118 **Mary Robinson:** If, from an audit perspective, you were challenged on some of your decision making, what would you do?

Steve Thompson: On internal audit, external, or either?

Mary Robinson: External audit.

Steve Thompson: We always respond to the recommendations. Sometimes we agree to disagree; sometimes we absolutely accept them, and it's a fair cop. But it is important to have that independent opinion, absolutely.

Q119 **Mary Robinson:** I ask this because we have seen evidence in the past where auditors have not been listened to and the councillors have gone their own way. Gary?

Gary Fielding: As I was saying earlier, I think we have access to a range of specialisms. There is a recognition that where there is something out of the ordinary, you need to engage other specialists. I have observed that happening. I think the issue has been where people and organisations have been sidetracked and less focused on the objectives, and occasionally driven by vanity. Some of these things have taken on a life of their own. That is very much a minority, but we get tarred with the same brush. I think it is about being clear whether it is re-generational, or if it is about debt rescheduling, or if it is about some commercial return, but also promoting the local economy—as long as we are clear about that. We have a key role as section 151 officers, with monitoring officers and heads of paid service, to call those things out. I agree with colleagues. As I have got older, I have become more emboldened around that. As you get more experienced, you are prepared to do that. I think it is hard for newly appointed section 151 officers, monitoring officers or chief executives, where you have strong characters at play.

Q120 **Mary Robinson:** Finally, how do you measure success in commercialisation or investments?

Steve Thompson: In terms of regeneration, I just want the projects to wash the face. The important things are around the local economy, job creation, good-quality jobs, and whether we can mitigate and minimise the risks. With, for example, our business loan fund, it is whether we can make a turn on interest rates that facilitates a development in the town by somebody else, but ringfence that surplus, should there be any, towards a bad debt provision elsewhere. It is about prudent management within each particular programme.

Q121 **Ian Byrne:** Brevity is the name of the game here. This is quite an easy one for you to answer. Is the funding you receive sufficient to deliver your council's responsibilities, Lorna?

Lorna Baxter: The straight answer is yes, if you talk about statutory responsibilities. I think that is where it becomes very difficult to say whether there is sufficient funding. With a lot of services, obviously there is a balance between what is statutory and non-statutory. For example, within adult social care, children's social care, or library services.

Q122 **Ian Byrne:** So you can just deliver your statutory services, as it stands?

Lorna Baxter: This year, yes.

Q123 **Ian Byrne:** Bob?

Bob Watson: I think I would probably upset my colleagues here, being a district. Over the last few years, we have been penalised through not being able to increase our council tax by the same levels as some of the social care authorities. I do feel for them, because I use to work in a unitary; I know all about social care problems, so I am not decrying that. As a district, we have seen a real-terms decrease in our core spending power coming through. This year's increase was 2.99%. When you're talking about inflation on our contractual services running at 10%, it is a real-terms cut, year on year.

Ian Byrne: Absolutely.

Bob Watson: The freedom to raise it—

Q124 **Ian Byrne:** Sorry, Bob. I just want to give everyone a quick opportunity to have their say.

Steve Thompson: I have seen the LGA report of a budgetary gap of £4 billion across local government next year. I have heard county councils say it is £4 billion just for them, but if you were to pro rata that £4 billion to Blackpool, it would be £17 million. That feels about right.

Q125 **Ian Byrne:** Okay. Gary?

Gary Fielding: As I said earlier, we estimate we have a £70 million gap. We will make it work because we are going to be cashing in that unitarisation dividend, so we are in a unique situation. We will also be pulling together policy areas for review as a contingency, because if it does not go well, that is where it will have to go. We also do a lot of early intervention work; we would not want to stop doing that, because I believe that does save in the medium term—it has been invested in for some time. Of course, we will have to have those on the list if plan A does not work. That is the key for me: we have got plan A, plan B, plan C, and various scenarios.

Q126 **Ian Byrne:** I will stay with you; to what extent do single-year financial settlements from Government inhibit councils' ability to plan delivery of services? You touched on it before.

Gary Fielding: I sometimes think this is not as much of an issue. My colleagues might disagree with me, and I sometimes get pilloried by other treasurers for saying this. I think one of the previous witnesses made the point that the financial settlement we usually get in December is for a small amount of money. We have 140 different funding sources. Most of the key decisions for my council are determined by the Department for Education, the Department for Health and Social Care, and others. It would be much better if we had a framework where this was brought together, and we had much more flexibility. I remember one year, we had the funding settlement slightly earlier, but the better care fund guidance was stuck on the chief executive of NHS England's desk well into the financial year.

Q127 **Ian Byrne:** I am very interested in that answer. Does everybody agree with Gary's take on that? Or do you disagree?

Steve Thompson: I would disagree with that. I remember when we had a four-year settlement, back in 2016-17. It was a declining settlement in each of those four years, but it included more straightforward budget and medium-term financial plans—

Q128 **Ian Byrne:** So it is better to do long-term planning.

Steve Thompson: Yes, rather than days before Christmas.

Q129 **Ian Byrne:** I will go to you now, Lorna. What is your experience of using competitive funding pots, like the levelling-up fund?

Lorna Baxter: I will respond on behalf of ALATS. One of the things I wanted to pick up on—which sort of answers the question—relates to the fact that it is time consuming, and often depends on how good your bid is.

Q130 **Ian Byrne:** Does it also depend on the ability of the council to actually perform? Having the office staff, and how that affects well-off councils?

Lorna Baxter: Yes. Having the ability and the staff available to complete those.

Going back to the other point, I wanted to pick up on some of the deprived areas that have not benefited from as much funding that other areas might have. Things like the new homes bonus and retaining businesses rates, which was sort of touched on in the earlier session, and the fact—as we talked about—that shire districts have been most impacted by their inability to raise council tax.

If you look at whether size and location have an impact on financial resilience, some of those factors are quite important in understanding the scope of funding available, and therefore, whether there is more risk in those authorities in more deprived areas having balanced budgets.

Ian Byrne: Anyone else want to touch on that point?

Bob Watson: Just to say that we will not bid for competitive funding pots on the grounds that we know we will not get any money at all. It is quite obvious, where we are.

Ian Byrne: That is an honest answer.

Bob Watson: There is a cost to doing it, and it potentially does not make any sense; we do not have the levels of deprivation. We do have other cost drivers, and obviously we have deprived areas, but not the same as some of the other areas. We know our chances of getting any competitive funding will be around zero.

Q131 **Ian Byrne:** Thanks, Bob. Just to finish, has the business rates retention scheme negatively affected the distribution of funding? Does anyone want to come in on that one?

Gary Fielding: Again, I am going to express a personal opinion. I had an excellent conversation beforehand with the previous witnesses about this. With business rates retention, I find it a bit bizarre because the system is centrally prescribed, based upon national valuations and run by the Valuation Office, with the multiplier being determined centrally and the policy around small businesses and exemptions being determined centrally, and we are pushing to localise that. And then we have council tax, which is a local tax that we are then told how much we can increase it by, and it is also resource-equalised through the settlement, so that, for North Yorkshire taxpayers, a bit of that money goes elsewhere. I understand why, but I think it’s a cop-out, because it is not dealing with the issue.

We are localising a central tax and we are centralising a local tax. And to me, it is fiendishly complicated, and it lacks correlation to services, as previous witnesses were saying. I do not understand how business rates is correlated to older people living independently, more children with special educational needs and more children going into social care with transport needs. It is completely uncorrelated and to me is part of the problem.

Ian Byrne: That is a really good answer. Everyone seems happy with that.

Q132 **Chair:** Finally, can I ask you what support you feel is available from DLUHC for support officers who have real concerns about the financial health of their own authorities, and how do you think that interface with the Department could be improved?

Lorna Baxter: If it is okay, I would like to start with what else is available as well. As a director of finance, if I was starting to find myself in a position where I was not sure how to balance the budget, for example, I would seek advice or discussion with one of my colleagues from my society. Gary and I would talk, for example, about whether there are certain situations, or how to help out.

There are also the LGA, the Chartered Institute of Public Finance and Accountancy, or CIPFA, and various places that you would go to as a director of finance, possibly before you went to DLUHC.

In the last five or six years of being a director of finance—I have been a director of finance for 10 years—I think that the relationship, particularly with the section 151 officers and the Levelling-up Department, has improved significantly. There is much more of an informal approach than has been in place so far. I think there ought to be something that is probably more formal. I think there ought to be more conversations that take place more regularly between the Department and each local authority, rather than it being a local authority reaching out to the Department.

Chair: Does anyone else want to come in?

Steve Thompson: I have no issue. I have found them extremely welcoming. We have regular conversations, as we do with all central Departments: the Department for Transport, the Department for Education, the Department for Health and Social Care, etc. That was probably never more important than during covid. At one point, we were forecasting something like a £30 million overspend during the year. And I believe those regular conversations helped DLUHC's understanding of the predicament we were in. As a result of being honest and transparent, the money flowed, and we were more or less covered off, so I think that relationship is absolutely critical.

Chair: Gary?

Gary Fielding: I have observed over the years that DLUHC officials have got stronger, more understanding and more supportive, so I am full of admiration for the work and the support that you can get at that level.

However, I will come back to a point I made earlier. I do not want to misrepresent my position. I am all in favour of longer-term settlements, but what I do not want is just a long-term settlement over a very small part of it; it needs to be a wholescale thing. There is something here around how DLUHC can exercise greater influence over those funding streams that come into councils, because DLUHC is the parent Department, if you like. And until that happens, I think we will always struggle, because we talk about a very narrow amount of funding and we want DLUHC to be heard louder in some of those other Departments, particularly the Department for Education and the Department for Health and Social Care.

Chair: Bob?

Bob Watson: I think my colleagues have said it all, really.

Chair: Okay. Right. Thank you—all of you—for coming to give us your perspective on the current situation and what might be done to improve it as well, in a variety of different authorities. That has been really helpful to us in forming a view about what is happening in local government and local finance at present, and the potential challenges ahead and what we need to do about them, so thank you very much indeed. That brings us to the end of our public proceedings for today.