



Housing, Communities and Local Government Committee

Oral evidence: The Funding and Sustainability of Local Government Finance, HC 514

Tuesday 11 March 2025

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Members present: Florence Eshalomi (Chair); Lewis Cocking; Chris Curtis; Mr Lee Dillon; Mr Will Forster; Mr Gagan Mohindra; Joe Powell; Sarah Smith.

Questions 32 - 66

Witnesses

I: Councillor Peter Marland, Chair of the Local Government Association Economy and Resources Board, Leader of Milton Keynes City Council; Councillor Jeremy Newmark, District Councils' Network Spokesperson for Finance, Leader of Hertsmere Borough Council; Councillor Barry Lewis, County Councils Network Spokesperson for Finance, Leader of Derbyshire County Council; and Councillor Bill Revans, Leader of Somerset Council.

II: Councillor Grace Williams, Deputy Chair of London Councils, Leader of Waltham Forest Council; Councillor Neghat Khan, Leader of Nottingham City Council; and Councillor Tony Dyer, Leader of Bristol City Council.

Examination of witnesses

Witnesses: Councillor Peter Marland, Councillor Jeremy Newmark, Councillor Barry Lewis and Councillor Bill Revans.

Chair: Good morning, everyone. Welcome to the Housing, Communities and Local Government Select Committee. I am Florence Eshalomi; I am the Chair of the Committee. I will ask my colleagues to introduce themselves, please.

Chris Curtis: I am Chris Curtis, MP for Milton Keynes North. Councillor Marland is the leader of my council.

Sarah Smith: Sarah Smith, Member of Parliament for Hyndburn.

Joe Powell: Joe Powell, Kensington and Bayswater.

Mr Forster: Will Forster, MP for Woking. I have a declaration of interest:



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I am still a serving councillor with Woking Borough Council, which is receiving EFS and Government intervention, if that comes up.

Mr Dillon: Lee Dillon, MP for Newbury. Since our last public meeting of this Committee, I have stood down from my roles as a councillor on Thatcham Town Council and West Berkshire unitary.

Lewis Cocking: Lewis Cocking, MP for Broxbourne. I am still a Hertfordshire county councillor.

Mr Mohindra: Gagan Mohindra, Conservative Member of Parliament for South West Hertfordshire.

Chair: Thank you very much. Can I ask our guests to introduce themselves, please?

Councillor Revans: I am Councillor Bill Revans. I am the leader of Somerset Council.

Councillor Marland: I am Councillor Peter Marland. I am the leader of Milton Keynes City Council. I am also chair of the LGA resources board and, as a declaration of interest, Chris is my MP and I occasionally advise him on matters of housing and planning.

Councillor Newmark: I am Jeremy Newmark. I am the leader of Hertsmere Borough Council in Hertfordshire. I am the finance and investment spokesperson for the District Councils' Network.

Councillor Lewis: I am Councillor Barry Lewis, leader of Derbyshire County Council and the finance spokesperson for the County Councils Network.

Q32 **Chair:** Thank you for coming before the Committee this morning. This is our second session looking at the sustainability of local government finance. I think it is fair to say that local government finance continues to be in the news. It is a key feature for us all as parliamentarians.

I want to start with a question to our witnesses. In this day and age, where obviously a number of you have set your council budgets, do you think that local authorities are being asked to deliver too much with very little resource?

Councillor Revans: Yes is the very short answer, in particular around adult social care, children's social care, SEND, and housing and homelessness. We are seeing increasing pressures on those services and a reduction in the funding to local government over a good number of years. Figures vary, but I am told that around 40% of our funding from central Government has gone.

We have almost sleepwalked into a situation in which council tax is funding social care. If you remember, council tax was brought in in 1991 as a temporary measure, almost when the poll tax—or community charge, depending on how we want to look at it—was ended. We are funding social care out of a tax on 1991 property values. No one would come to that conclusion as being a way forward. I think that 66% of our budget this year goes on social care. I know of councils that are now



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talking about figures projecting into 70% and 80%. If we are going to fund social care out of something, council tax is the wrong way of doing it. That would be my main message to you.

Councillor Marland: It depends on the focus of the question. If you are asking whether the councils are being asked to do too much, I would say no, because councils by their very nature are leaders of place. Should we be delivering housing? Yes. Should we be keeping children safe? Yes. Should we be making sure that children with special educational needs have the right education to make sure that they can get on in life? Yes. The issue tends to be where those resources are and how councils cannot move resources around within the system. The LGA would say that there is an £8 billion gap in the funding over the next three years, but I would also make the case that a lot of the service pressures that are put on to local government are through central Government requirements. SEND has not been reformed in many years. The adult social care system has not been reformed in many years.

The answer to your question is that it is more nuanced. I do not think that councils are being asked to do too much; I think councils should do more, but they need the resources to be able to do it. They need the resources to be able to shape their places, to make sure that we are working to the Government's agenda to deliver those good jobs and those 1.5 million houses. I think the resources are probably in the system somewhere; they are just not being allocated to the frontline of local authorities.

Q33 **Chair:** On that, Councillor Marland, you look at the fact that across England councils are responsible for over 800 services, the majority of them mandatory. Evidence that we had from Cherwell District Council said that it wants to see an increase in ongoing funding but a reduction in the statutory level of services. Would you agree with that?

Councillor Marland: I think there is an argument to be made about having a proper co-production discussion around what is statutory and what is not statutory. There is a very good argument that a number of the statutory services—what is statutory? I have discussions all the time, as no doubt many of you did when you were councillors, about what is statutory. Having a library service is statutory, but is that one library in the centre of town with one book in it and no funding to have new books? Or is that a different service delivered by communities, parish councils or other services?

I would say it is less about what is statutory and more about the nuanced argument around ringfencing and what ringfencing is. For instance, public health is statutory, but it is also ringfenced. The public health grant that I get can only be spent on public health, which is no real measure of outcomes. We still have a situation where we have an increasing number of children who are obese. We have an increasing number of older people who are not getting their proper flu jabs and covid jabs, but we cannot shift resource into, say, libraries to make sure that where older people are, they get the right injections and the right services, because one is



statutory and the other is not necessarily statutory, but they do not overlap with each other. It is a more nuanced argument than what is statutory and what is not statutory.

Councillor Newmark: No one would dispute the fact that council finances are under a level of pressure that is unprecedented, not just in recent history but ever before. The system has clearly been creaking for a number of years, but I do think that it is an oversimplification to attribute that purely as a function of workload. Councillors tend to be quite aspirational when it comes to leading their places, and I do not think you hear many of them complaining about workload.

However, as I say, it is an oversimplification. I think that what we are dealing with here, to put it very bluntly, is a local government finance system that is structurally unfit for purpose. As colleagues have said, even the most basic things like being able to move money around into different parts of the system and target it at areas where it is most needed are difficult to do under the current system. The scenario of local government reorganisation adds to the uncertainty, and uncertainty in and of itself creates additional pressures. Within our own membership base of the district councils, we have an eye-watering increase in the need for temporary accommodation. Over the last 12 months, our members were responsible for 91,000 homeless households, and that number is only increasing. Again, it creates another piece of unsustainable pressure when it comes to providing temporary accommodation or the broader range of homelessness services.

Councillor Lewis: I think it is more a case of too much with too little at the minute. Demand continues to rise all the time, which means that the statutory provision that we all provide as local authorities is what we increasingly have to focus our efforts on. The discretionary stuff is increasingly becoming for the birds, which is unfortunate.

We have to be inventive, as you have already heard, about how we provide services, particularly preventative services. We need to reduce the demand arriving at our front door. By 2030, adult social care spending in England is predicted to have increased by £11.8 billion, children's services by £8.4 billion and home-to-school transport by £1.7 billion. These are the key drivers and together they are going to account for 83% of the total increase in costs that councils are projected to be spending on services by 2030. There has to be this focus on those key services.

I would say yes, and I go back to my original point: it is too much with too little at this point.

Q34 **Chair:** Councillor Lewis, you talked about being inventive with how you deliver some of these services. A recent Local Government Information Unit survey on the state of finances in England reported that 52% of respondents identified adult social care as the greatest long-term pressure and 38% said children's social services. Those are key areas that you have just outlined. Do you think that councils need to keep



looking at different ways to manage those services? What needs to change to address those demands?

Councillor Lewis: We are always looking at different ways of managing those services and trying to reduce the demand and so on, but when you have to focus on meeting the demand that you have within the system, you necessarily have to start thinking about where you start reducing. Then you start looking at your early help, which almost cuts your nose off to spite your face in the way that you deliver those services. It becomes the key imperative that you need to look at the system. Particularly in children's services, that is around high-cost placements and how we get the costs for those down. You probably have these figures at your fingertips, but some of our care placements can cost us in excess of £1 million a year for an individual child—some of them heading towards £2 million a year. That is unsustainable. That market is broken. That is something that we cannot address on our own. We need the help of Government in that space in particular.

Q35 **Chair:** With children's social care and the transport element, especially in rural areas, do you think that means-testing that service would be an area to look at how you alleviate some of the cost pressures?

Councillor Lewis: That could be something that we have to do, but each local authority area is looking in its own way at how to tackle that issue.

Councillor Revans: That would be an option that we could look at, but one of the significant factors is around inclusion in mainstream schools as well. We are trying to work with our education sector to improve the inclusion offer, and it has become much more difficult now that the education system is more fractured with academy chains and multi-academy trusts and so on. However, we have managed to bring together our schools. In Somerset, we are investing in 15 in-school SEND units, for example, which should reduce that pressure as well. Yes to the means-testing, but there are lots of other things we can do.

Q36 **Chair:** You had the discontinuation of the rural services delivery grant. Do you think that the funding that Government are currently allocating to urban and rural areas is fair?

Councillor Revans: I was very disappointed to see the cancellation of that grant. It stands to reason that providing services in remote areas—and we do have some remote areas in Somerset, as well as some urban areas—costs more. When it is a mile or two between houses, it costs more to collect the bins. It is a fairly straightforward equation, and I think the funding formula should recognise that.

Councillor Lewis: Yes, I would agree with that. There was a £600 million recovery grant, which was great, but it was skewed towards urban areas, ignoring that the social care demand, not just deprivation, is driving financial stressors within the system. That abolition of the rural services delivery grant took a lot of funding out of councils that really needed that—counties like Derbyshire, for example, in which we have a



significant rural area. The cost of delivering services in those rural areas is much higher than in urban areas.

Q37 **Sarah Smith:** Before I move on to some questions around preventative services, I want to understand the views of the panel on the decision to discontinue the safety valve agreements with regard to the high needs block.

Councillor Marland: Project Safety Valve was a very specific project that was focused on a number of councils, for those councils to invest in reducing their SEND overspend on their high needs block. There was another project that was ongoing and the Government allocated a further amount of money. While Project Safety Valve has been discontinued, the general principles of Project Safety Valve, which is investing in capital to reduce some SEND spending, have continued. It is the discontinuation of a specific name for something. There is a little bit of confusion and I have had to explain it to a few councillors. The statutory override, which is the Government's ability to be able to effectively discount the debt, is continuing until 2026. If that does not continue, that is a very big problem.

However, in terms of Project Safety Valve, that investment in SEND is continuing and the Government have brought more money in over the past six months. I think it was about £500 million.

Councillor Revans: Yes, the statutory override is making a big difference. We are projecting it will be £64 million overspent there by the end of the financial year if that is taken into account. I know that is the case in many other councils. We will be looking at section 114 notices being issued like confetti.

Councillor Lewis: The numbers I have here are quite stark on this one. If the statutory override expires, a total of 26 out of 38 county and rural unitary authorities would be at risk of issuing a section 114 notice before 2027. That would include 18 authorities that would be insolvent literally overnight in March 2026 if that happened.

Councillor Marland: There was some evidence, and you may want to look at this as a Committee, that those Project Safety Valve councils have not necessarily reduced their SEND deficit by enough of a quantum to get back into balance. That is a real problem, because if you are talking about SEND it is less about the ability to continue to overspend and more about the problems inherent in the SEND system. Statutory overrides are great, but they do not tackle the underlying problem.

Q38 **Sarah Smith:** Let us move on to the importance of preventative services. Have your councils had to make cuts to discretionary preventative services? What long-term impacts has this caused?

Councillor Newmark: At district council level, we are particularly big on the value of preventative services. They deliver incredible bang for the buck. My view is that when you start to have to cut those preventative services, it is almost like knocking down the first domino in the line. The



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area in which we are seeing the first wave of cuts to these services is primarily around leisure provision. It is an expensive area to deliver on, but equally we have learned, particularly since the pandemic, that this stuff matters.

At district level, we are rooted particularly close to local communities and we can act in a nimble and agile way when it comes to things like social prescribing, which people have just started getting into an operational mode with. That is something we see slowing down. There was a rush to bring food and fuel poverty alleviation schemes on stream a year or so ago. Again, it is something that is slowing down. There is a case study that I have mentioned a few times recently over in South Norfolk, where the district council launched a particularly innovative service to expedite hospital discharges. In just two of their local hospitals, they are estimated to have saved something like 13,000 bed days, saving the NHS over £8.5 million.

It is all those things. Even if they are not being cut yet, they are being cut back, they are being delivered at a slower pace and they are under serious threat.

Councillor Revans: Yes, we have had to look at innovative ways in which we can secure a lot of those preventative services for our communities. That is working with the voluntary sector and the faith sector; it is also working with the city, town and parish councils that we have, for them to take on the funding of services that we would see as preventative. That partnership approach with our colleagues in those sectors has enabled us to keep some of those services going that our communities most value. However, it is increasingly difficult to justify. Basically, we are moving costs to a different part of council tax to keep those services going, which is ultimately a sign of a broken model for me.

Q39 **Sarah Smith:** I assume it is also dependent on philanthropic funding through the voluntary sector, where how much is raised is potentially dependent on the wealth of an area.

Councillor Revans: Yes. We are an area with considerable social inequality. The matrices, shall we say, work in a way that makes that philanthropy work particularly well through the Somerset Community Foundation. However, that is not an ideal situation for what should be publicly funded services, in my view.

Councillor Marland: Speaking on behalf of the LGA—I think you are hearing from the leader of Nottingham City Council next—all councils have had to make some very difficult decisions recently. From a local perspective, we have not necessarily cut preventative services. We have either changed the model of how we deliver them or focused on them more.

There is always going to be a place for preventative services, but I would caution against the headlong charge into preventative services being a completely different model that is a panacea that will save a whole load of money for everybody. A great example of that is Milton Keynes



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Council's split on our adult social care bill. Our adult social care bill is split—about 58% to 42%—on 18 to 60-year-olds who have severe learning disabilities or disabilities. You cannot prevent those, and that is a bigger chunk of spending than people who are over 65 and getting older. That will slightly grow, and that is where there is probably the biggest argument to reduce some funding, although it will be cost mitigation. It will not be stopping all increases; it will just be mitigating that increase. You cannot prevent a 22-year-old child from having severe learning disabilities and severe disabilities and needing day-in, day-out care.

I think there is a little bit of “preventative is the future”. It has to be part of the mix, but I would caution against the idea that a whole load of extra money into preventative services will ultimately be a magic button that we can press. A good example of that is Milton Keynes, where we have spent a lot of money on preventative services in our children’s department, and this year we had a £10 million overspend. For 12 years, we have prevented certain children from coming into care. Our evidence base is that we should have taken those children into care when they were two or three, because now they are 14 and 15. We have spent a lot of money, but we are still having to take them into care—and taking a child into care at 15 is a hell of a lot more expensive than taking a child into care at two or three and having to foster and adopt them.

It is about targeting and making sure that there is an evidential base for preventative services, as opposed to just saying, “We are keeping the leisure centres open because everybody will go to the leisure centre and they will not be as obese.” It is not that easy.

Q40 Sarah Smith: Would expansion of Government support like the children’s social care prevention grant help to address the increasing demand for services in the longer term?

Councillor Marland: I don’t agree with ringfencing. To come and say ringfencing is bad and then for the Government to say, “We have another block of money over here, just spend it on this” does not work. I think we need an outcomes-based system. If the Government want to grant us money, it should be outcomes-based and we should be able to be judged on what we are doing, as opposed to a certain block of money in a certain place.

Q41 Chris Curtis: I think we are all assuming that there may be some announcements from the Government on extra ringfencing on planning and planners, with relation to potentially increasing planning fees. Would you include that under the list of things that you do not think should be ringfenced?

Councillor Marland: I think that is a slightly different question, Chris. Like all services, planning is a sold service; it can wash its face. It is a bit like licensing and things like that. I would not go as far as to say that we should charge beneficial fees for planning because what you would effectively be doing is saying to Barratt or Taylor Wimpey, “You pay £1



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million for this.” It could have a negative consequence on some other areas, like trying to build 1.5 million homes.

Q42 **Chair:** If you do not believe in ringfencing, Councillor Marland, would you say that councils should be mandated to provide statutory services?

Councillor Marland: Yes.

Chair: Which are ringfenced.

Councillor Marland: Possibly. I think outcomes can be mandated. I would not necessarily say spending can be mandated.

Again, I will give you an example from Milton Keynes. We took the radical step of putting up parking to 80p an hour in the fifth biggest shopping centre in the country. We cannot increase parking charges any further because on-street parking is ringfenced and you can only spend the ringfenced transport account on legal ringfenced transport stuff. That is the area: 80p in the fifth biggest city centre shopping area in the country is bonkers, but we have reached the statutory limit that we can spend it on.

Councillor Revans: To be very clear, I do not think anyone would ever say no in local government to extra funding. What we would prefer is the flexibility as to how we spend that money. It is important that we understand that it is the quantum. Yes, we know that Government will have their objectives and will want to target resources towards Government objectives; we are also democratically elected and we have local objectives that we want to achieve. At the moment, when the discretionary services that we have are being squeezed more and more, there is less and less we can do to deliver the objectives that we were elected to achieve.

Q43 **Lewis Cocking:** Peter, you are essentially saying you do not mind it being ringfenced as long as it suits you. If it does not suit you, you do not want it to be ringfenced.

Councillor Marland: Yes, I am a council leader and a politician. There are some good examples of where it can work and some good examples of where it cannot work. Another great example, which I think Jeremy pointed out, is the number of councils that currently have huge problems with temporary accommodation. This year the housing and prevention grant is ringfenced 51% to 49%, and 49% has to be spent on homelessness prevention. Quite who sat in a room and decided it must be 51-49 I don't know.

Chair: We have been asking the Secretary of State that very question.

Councillor Marland: That is a very clear example of where London councils or other councils should be able to apportion that. Saying you need to spend money on homelessness prevention—what is homelessness prevention? You show us that the money that central Government give local councils is value for money.



Councillor Newmark: I think the underlying philosophical point here, in a world in which devolution seems to be the watchword, is to what extent that devolution applies in a fiscal sense as well. Yes, mandate outcomes, at least within parameters, but if the watchword is about creating that level of local autonomy, it does not make sense to say that it would apply in every other dimension in which a council operates other than actually managing its own finances in that sense.

Chair: We will move on to council tax. I am mindful of time, colleagues.

Q44 **Mr Mohindra:** Before I move on to council tax, I have a question about independent schools. We have spoken this morning about SEND. There is an argument that independent schools have subsidised SEND provision because affluent families have sent their kids to independent schools instead of sending them to the state sector. Have you done any modelling to see how that has affected your individual council budgets? If so, is there anything that you wish to share with this Committee?

Councillor Revans: We have looked at it and we have not noticed a discernible increase since VAT. Many of the private schools were planning with their parents around that area to try to achieve some sustainability. We will wait with interest to see what the impact will be. We remain cautious.

Q45 **Mr Mohindra:** Councillor Revans, you spoke about the council banding being outdated. Should the ratios of council tax bands be changed and new bands added, either nationwide or by individual councils?

Councillor Revans: Yes, undoubtedly one easy fix that could be made is to put on additional bands above the current top band. At the moment it works in quite an iniquitous way: council tax does not have any bearing on the ability to pay. We look at council tax rates all over the country and you can see some quite bizarre quirks of the system depending on historic factors—depending on property values in 1991 and what has happened to the market since then. We see council taxes in incredibly affluent areas of the country being perhaps only about double what they are for band A in the centre of Bridgwater. I find that iniquity to be unhelpful.

Q46 **Mr Mohindra:** Councils have the ability to increase council tax, subject to a referendum. The Government had multiple councils apply for it, but only six were accepted. What impact will that have on the councils' abilities to set a balanced budget?

Councillor Revans: I was on one of the councils, so do you want me to take that first?

Mr Mohindra: Yes.

Councillor Revans: We applied and were allowed to go 2.5% over the cap, which I think they call bespoke referendum principles, a bizarre way to express it. It still puts our council tax rate below our statistical neighbours. If you cross the border into Dorset, you will be paying more



council tax for an equivalent band, or Wiltshire, Cornwall and so on. It has helped us to avoid a section 114 notice. It is part of exceptional financial support, along with capitalisation direction. The gag has been told enough times that with 31 councils applying for exceptional financial support, it is no longer exceptional. There is no money involved so it is not financial, and it is not a long-term support because it is no solution to local government finance.

Exceptional financial support is of course welcome, because we want to be able to manage our own affairs, but at the same time it is incredibly difficult because ultimately our residents have to pay more at a time when they are seeing fewer services, because the services go to those people most in need of adult and children's social care.

Councillor Marland: On council tax banding, you could have council tax banding from A to Z in some places and they would not raise a single extra penny. If Manchester puts council tax up by 1%, it gets around £1 million for every percentage by which it puts council tax up. Milton Keynes draws in £1.8 million because we already have quite a healthy band H and band G. Manchester will not have any more band Gs just because you expand the band down there. Hyndburn is another good example. You run the risk of making more affluent places more affluent in terms of council tax intake.

Although it would be welcomed in some places and the ability for some places to raise council tax, probably more than 2% on certain bands, and maybe to have differential rates is probably helpful, it comes back to the point that ultimately council tax is inherently unfair and is not the solution to the growing SEND problem. It is not the solution to pressures on adult social care and it is not the solution to pressures on children's services. It would go some way, but it would not help places like Nottingham, Manchester and Burnley because they are not building any band G homes and they do not have any more band G homes.

Q47 **Lewis Cocking:** I want to come back to your point, Bill, and ask a different question. You are saying that you applied to go above the council tax threshold by 2.5%, which was accepted. We have done a lot of work on this Committee around unitarization. Your council went unitary. We are always told if you go unitary you save loads of money, billions of pounds, and local government will be awash with money. How come you are still struggling financially even though you have gone through that unitary process?

Councillor Revans: First of all, we are in the early days of going through that unitary process, so we are still finding savings. The business case that was approved by the previous Government was for £18.6 million of savings. We reckon we have doubled that, in fact. The simple fact is that cost pressures in social care and in children's are rising at a rate faster than our ability to make those savings from going unitary. I describe it as like trying to sprint up the down escalator: you still end up going backwards. We are making those savings, we are making those economies, but we cannot do it fast enough to meet the demand.



Councillor Lewis: I want to make a point that goes back to the council tax issue. Because of historic underfunding in the County Councils Network, we have an overreliance on the council tax rises to fund services. For us, it means our average band D council tax rise in counties is 15% higher than the national average anyway. I just wanted to make that point. If you compare it to some of the London boroughs and so on, where you would expect council tax costs to be higher, this is disproportionately not the case.

To come back to this more up-to-date point around local government reform, the cost savings potentially inherent within the system, if we get the scale right—and scale is critical to this—are quite significant. You will know that County Councils Network did some research on this relatively recently. If we are creating 29 new unitary councils based on a minimum population of half a million, it would save the system £1.8 billion over five years and then realise annual savings of around £5 million thereafter. There is some strong evidence that that is one of the ways we can save the system some money and start thinking about how we reinvest some of that money back into the services that all councils want to provide to our residents.

Councillor Newmark: I know the Committee has previously looked at the Scottish model of gearing higher tax increases on the higher bands, E or F through to H. I do think that that is a point that addresses Councillor Marland's concerns and might also go some way towards alleviating the problem. That is a debate that needs a bit more airspace.

At district council level, people often do not realise that only 14% on average of district council funding comes from that central grant, even though we collect 100% of the council tax bill. That is far less than the situation in most other authorities, which on average are keeping over 50% of that. Less than 10% of the average council tax bill goes to district councils, full stop. In fact, our share or the district's share is now actually lower than the entire police and crime commissioner precept in 90% of places. We have for some time now been advocating an increase in the limit from 5% or £10. We believe that that would contribute an additional £100 million or so to district budgets annually, or £300 million over three years. It would only mean an average increase of 69p to a band E bill over three years. That is an intervention that could make a real difference.

On the unitarisation point, I apologise for disagreeing slightly with Councillor Lewis, but there are all sorts of arguments that do make the case for unitarisation. However, we have yet to see any compelling evidence that shows there is an absolute direct correlation between the size of the unitary council and its financial sustainability. That is the long-term issue that needs to be addressed and looked into further.

Chair: Thank you. We will move on to financial distress.

Q48 **Mr Dillon:** Councillor Marland, let me turn to you first, with your LGA hat on. Councillor Lewis remarked on how many councils might be at threat



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of a 114 if the high needs block is not addressed. If we park that particular issue, how many councils do you think are in 114 territory within the next couple of years?

Councillor Marland: I think the number of councils that applied for and were granted EFS doubled this year. I think it was in the 30s this year, wasn't it? That gives a very solid indication that the narrowness and shortness of the runway for what local councils have left is pretty stark. I have said for quite a while that I suspect within the next two to three years, if something serious does not happen, the LGA says that upwards of 80% of councils are in some danger of issuing a 114 notice.

I would just again come back to some of the technicalities. We like to say 114; 114 is just a statutory notice to say you have to pass a balanced budget within 28 days or 14 days. I think the Committee is looking at the financial sustainability of councils. Just because you issue a 114, you do not become automatically financially sustainable. It is a massive challenge.

Q49 **Mr Dillon:** That leads me nicely to my second question, which is for the whole panel. How successful do you think the section 114 process has been in supporting councils out of financial distress?

Councillor Newmark: It certainly is likely to result in short-term relief, but at the end of the day it utterly fails to address the underlying issue of insufficient funding for local government. Of course, what people often lose sight of in this debate is that those costs that are from the EFS process are ultimately borne by local taxpayers. If we really want to stem the tide here, the debate needs to shift to one around medium to long-term financial certainty, dealing with an increase in demand, especially on the issue I referred to earlier around homelessness and the wider cost pressures. We have an early warning system. We have short-term relief that adds to the cost of borrowing, by the way, and ultimately is paid for by taxpayers. However, in the long term I am not convinced.

Councillor Revans: Having spoken to leaders of councils in the section 114 process and when we were at the start of realising that our finances were not sustainable, we had conversations about what that means. When we started to understand double-digit council tax rises and pretty much compulsory selling off of assets regardless of community value, when we see services being cut to the absolute bone, particularly preventative services that we know are a long-term investment and will cost the council more in future, we took the decision to try to take as many of those painful decisions as we could to retain local control.

Commissioners also do not come cheap, and they decide when they leave, which is a great way to make a living. If you hired a tradesman into your house who could write his own invoice and decide when his finishing date was, you might think twice about bringing him in.

Mr Dillon: Yes, I have seen over £1,000 a day as a day rate.



Councillor Lewis: There are a few aspects to this. We found ourselves, as a county council in Derbyshire, in some quite significant financial concern a couple of years ago, with an in-year £46 million deficit that more or less felt like it appeared overnight. It kind of did, in a way. We have managed our way through without exceptional financial support and without having to raise council tax above the threshold, but it has required an extraordinary effort on the part of the council in order to achieve savings. We have had to be fairly ruthless in how we do that, and in asset sales and things like that, to find ourselves in a position where we have an improved general reserve position.

However, it is only staving off the inevitable if things do not change, and that is the key thing we need to address. Some of the helpful things that might address that are the long-term financial settlement and understanding what we have coming down the line in coming years. That would be helpful in financial planning. There is the work that is being done around the fair funding review and ensuring that we get that right as well.

Councillor Marland: It has probably been a bit of a mixed picture in terms of councils that have been issued or had issued section 114 notices. For some, it was the right thing to do and those councils had effectively not been governed very well. For the very first councils that ended up issuing 114 notices, it was very clear that it was just a breakdown of governance, culture and all sorts of things that mean that councils do not make very good decisions.

As we go on, it has become clearer and clearer that it is probably not the right bit of legislation for today. It was passed in the early 1980s, effectively to stop Liverpool from setting illegal budgets. That is just a fact. It was directed at one individual in one place to stop councillors from voting to set deficit budgets. Looking at the general view as to whether it makes councils more sustainable, in some places where there is a good relationship between the commissioners, the council and the councillors it has done very well. In some places, it is more mixed. In some places, it has been more difficult because they have made councils sell off assets that in the long term could have benefited those councils. It is very much case by case, and I do not think that particular legislation is probably fit for today's purposes of making councils more financially sustainable.

Q50 **Mr Forster:** Can I come on to early warning signs of financial distress? Peter, what are the sources of information available for that? I highlight that my council, Woking Borough Council, had several peer reviews before it declared section 114. Despite the fact it was in negative equity by £1 billion, there were no concerns raised at the level of affordability. Do we think the peer reviews are working? In my experience, they have not been, and councils have had to go under as a result.

Councillor Marland: The LGA has recognised that as part of the local government assurance models, peer reviews were not particularly strong. When Northamptonshire existed, it had a peer review published one week that said, "Everything's fine—nothing to look at here," and the next week



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everything was not fine. There are those cases over and over again, and your own council is a good example.

The LGA has moved to more of a peer challenge model that is a bit more robust. It is identifying those early warning signs, but ultimately the LGA is a membership organisation. It needs to balance sector-led improvement. We are not regulators. Literally as I speak, there are peer challenge members in Milton Keynes City Council. It is our peer challenge week. When I have done them, I would be very clear where there are problems. I would identify them. Some of the processes depend on the chief executive you get and on the lead peer you get, but peer challenges are sector-led improvement. They should flag up any issues that come about through LG Inform and things like that.

Ultimately, the LGA is not the stick with which to intervene, but I think it can be the early signals of intervention. There is a list of things: poor governance, a bad relationship between the chief executive and the monitoring officer, leaders being able to just do what they want, all those things. If you are a good councillor and you go in and recognise them straight away, you should be able to flag them, but where you flag them to is a very good question.

Q51 **Mr Forster:** Bill, from Somerset's point of view, what were the early warning signs you and your council had before you sought EFS?

Councillor Revans: On becoming unitary we asked for a deep dive into the adult social care budget to understand why that budget had been overspending for a number of years and to understand the forecasting of it. That revealed that there had not been a re-basing of that budget for 13 years of the previous Administration and that was the large part of the £100 million gap that we will see in our forecast budget for the next year. That is where we started to have conversations with MHCLG to say that we will need some assistance here to get through this.

Q52 **Mr Forster:** I have heard that section 114s are probably going to be given out like confetti and that upwards of 80% of councils are probably in section 114 territory. What other things do you think could be introduced to improve that early warning sign support for local authorities?

Councillor Newmark: We could do more to address the audit backlog. I think that is a fairly obvious red flag and has a critical role to play in this ecosystem, if you like, of early warnings.

Perhaps one that you might not be expecting to hear is that I think this Committee itself acts as quite an important early warning system. After all, your predecessors have been telling the Government for some years about the likely impact of cuts to funding. You have issued calls for greater financial flexibility and issued regular reports, but certainly previous Governments do not seem to have listened and taken that on board. I would not underestimate the role that you play collectively as part of that early warning ecosystem.



Councillor Lewis: I think that is quite right, about the early warning system. The County Councils Network, the LGA and local authorities across the country have been flagging that this is an issue that is going to be happening to local authorities if we do not address it in a timely fashion, but it has never quite happened. That is the point I would like to make as strongly as possible. The early warnings were there. They have been apparent for some time. They have been raising red flags all the way up to pretty big klaxon calls that this is a problem for the sector, but it has not necessarily been listened to.

Q53 **Chris Curtis:** We have heard in a lot of our evidence that radical solutions are needed to resolve funding issues in the long term for local authorities. Can any of you think of any radical solutions that might work?

Chair: Not more money.

Councillor Marland: That is a good question that gets to the heart of the problem. There is an £8 billion gap in local government funding just to stand still—that is not to do all the other things that councils need to do or reset to a 2010 position as if 2010 was the panacea of everything. If we are going to lift children out of poverty, if we are going to make sure all these things are done, £8 billion just covers off a bill, so to speak.

From my point of view, I think we are a well-run council. I am not sure any leader sits here and goes, “We are a badly run council; please don’t give us any more money,” but if you give that £8 billion, you are just filling in a hole from a system that is not working. I will very clearly push back that extra funding—and I think devolution was raised earlier—does need to come with that reform agenda.

What is wrong with SEND? How are we going to talk to parents and children to make sure we have a proper system in place? The LGA did a study last year that was run by our now chair, Louise Gittins. We are an outlier in the OECD and in the G7 for how many EHCPs we produce. Either we can choose to believe that in this country more of our children have SEND needs, or there is something wrong in the system and how we communicate that. It is the same with adult social care. A lot of our conversation is about older people in hospital, and a lot of our spend is on adults who came through the children’s system and so on. I would push back quite hard on it.

Of course I am going to ask for money. We are local councillors; we could always do with more money. But why is the DWP always delivering programmes around jobs when local councils can do them much better? Why is it that police and crime commissioners and local councils are not working better together in delivering a reduction in crime? In all these things there is a huge reform agenda, and I do not think that just by asking for more money we are necessarily always approaching that in the right way.

From the LGA perspective, and no doubt other perspectives, we are in a very difficult financial position as a country. £8 billion is not going to



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happen for local government, let us be honest, but can we secure more money with the promise of reform? I think that is the road that we have to go down.

Councillor Newmark: Perhaps on the basis that one person's radical solution is another person's strategic intervention, there are considered measures that you see in place around Europe that, certainly at district council level, could make a huge difference.

I am thinking very specifically of things like the introduction of local tourist levies. Many of our member areas are very popular tourist destinations, the Oxford-Cambridge corridor, the Cotswolds, Devon and even areas like my own in Hertsmere that are steeped in history with the film and TV sector. Introducing something like a tourist levy could help to support those additional services that are inevitably required when you have a large tourist footfall, litter, waste collection, greater day-to-day management of green spaces and so on. I do not think that is particularly radical, but it is the strategic intervention that ought to be able to make a significant difference without too much effort involved in implementation.

Councillor Lewis: I go back to the point around fair funding and getting that right. Multi-year settlements are important. Over the course of the last decade or so, we have had discussions about how we change and deliver adult social care through the Dilnot review and so on. More recent reviews have sought to—well, we do not have a recent review; that is the problem. It has been kicked down the road a little bit and we need to do a bit more work around that.

We have a lot of issues within the social care system that we need to fix. Looking at how we can do that as well, long-term investment into the system, making sure that local authorities have the right funding to deal with the challenges that face us, is important. Are we going to look at a public-private insurance model to help cover some of the care costs moving forward? That should be given some consideration. Honestly, I do not know how we are going to address that particular issue if we do not.

Workforce reform and better pay and conditions within our social care workforce are going to be vital in how we deliver care in future, particularly in our communities where it is cheaper. I have already made the point about children's care, addressing the issue of high-cost placements. If we can solve that problem and get it done quickly, it will save the system a considerable sum over the next few years.

Councillor Marland: I do not want to pre-empt what the Prime Minister or the Secretary of State for Work and Pensions might say in the next couple of weeks, but I would point to covid-19 and the test and trace system. An inordinate amount of public money was spent on a national test and trace system that did not work. Then somebody had this wonderful idea that maybe local councils could deliver it, and we did it better and we did it cheaper.

There is one main determinant of whether people live longer, healthier lives: their income. That is the level of employment they have, a good,



secure job, and that leads to a good, secure home and things. The Secretary of State for Work and Pensions is hopefully going to go down this line. National changes to the benefits and welfare system will not work if they are just nationally driven, nationally set programmes that impinge. If you want to deliver better outcomes for Hyndburn, it should be focused on Hyndburn and Accrington and places like that. I think this Government have been better at those conversations, but it is that level of reform that we need to be talking about.

Q54 Joe Powell: Briefly on funding, Councillor Newmark mentioned one idea on the tourist levy. I just wanted to see if any other panellist wanted to come in on revenue raisers, which might be different local taxes—we have had evidence in this Committee on a land value tax, for example. Are there other ways of assigning national taxes locally? Does anyone else want to come in on the revenue side?

Councillor Revans: Yes. Certainly if we had a broader base of tax-raising powers that would help. I am not sure about the tourist tax and whether we could apply that to tents at Glastonbury festival, which is where I would particularly be interested in exploring it.

Joe Powell: Maybe the posh ones.

Councillor Revans: Maybe.

Chair: Glamping.

Councillor Revans: Maybe we will have a banding system, I don't know. Yes, any system whereby we can bring in extra revenue and get some cost recovery. I cannot remember what we charged Glastonbury in the licensing fees, but it does not cover anything like the cost.

Chair: It needs to increase, probably. My apologies: we are out of time. I thank our witnesses for coming before us this morning. You have given us thoughts for discussion in a lot of areas and, as I say, this is an issue that will continue to be on our radar.

Examination of witnesses

Witnesses: Councillor Grace Williams, Councillor Neghat Khan and Councillor Tony Dyer.

Chair: Good morning. Could our guests introduce themselves for the record, please?

Councillor Dyer: Good morning. My name is Tony Dyer. I am the leader of Bristol City Council.

Councillor Khan: Hi, I am Councillor Neghat Khan, leader of Nottingham City Council.



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Councillor Williams: Hi, I am Councillor Grace Williams. I am the deputy chair of London Councils, and the lead for housing for London Councils.

Q55 **Chair:** Thank you for attending the Committee this morning. I am sure you heard some of the discussions earlier. One of the areas that we have been looking is the different cost pressures between city and urban areas. Would you say that the cost pressures you face are different from those facing colleagues in other areas?

Councillor Khan: Yes.

Chair: In what way?

Councillor Khan: Because we are cities, we get more. Take temporary accommodation: people are placed more in the cities because of the transport links and connectivity. We see a lot more pressure in adult social care and the general pressures that we heard about earlier today—children, adults, temporary accommodation. I think cities see a lot more pressure on them.

Councillor Dyer: I would second that. Take areas of deprivation. There are areas of deprivation in most councils, but they are particularly concentrated in the larger urban cities. I look at Bristol, for instance, and the indices of multiple deprivation. Bristol has some 260 areas, and of those 40 are in the most deprived 10%. Within those are three—including the area I grew up in—that are in the worst 1% in the entire country. A city like Bristol is often perceived as being one of the wealthier cities, and yet among the core cities I think we have some of the worst situations.

Chair: Councillor Williams?

Councillor Williams: Yes, I concur with that. First, I would say—and I think you heard this in the first session—that we face a lot of common pressures. Social care and SEND were talked about, but cities, and in particular London, are at the heart of the housing crisis. More than half of homeless households nationally—56%—are London families. We talked about this in our previous session, but London boroughs are spending £4 million a day on temporary accommodation. That equates to a unique pressure. The extent to which homelessness pressures are the fastest-growing risk to borough finances is the thing that I would underline.

I can quickly show you what that looks like. I am not sure if I am allowed to bring in props, but this shows you what we call the chart of doom. This shows homelessness spending in London over a period, and there is no sense of it stopping. We have seen a further rise. I would underline the temporary accommodation pressure, as well as Neghat's point that deprivation in cities is the other crucial thing that differs. Local authorities that have financial issues and are seeking EFS tend to have high deprivation rates overall. That is the other thing that I would underline.

Q56 **Chair:** We have heard a lot about temporary accommodation, and it is fair to say London bears the brunt, but we picked up in our inquiry that this is an issue that affects quite a lot of areas. What approaches have



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each of your councils been taking to mitigate the increasing demand? I think it is fair to say you are still seeing those demands increase over the last few years, even though you are seeing more government support.

Councillor Dyer: Looking at temporary accommodation in particular, the underlying cause of the need for it is homelessness, and the reason why we have homelessness is that we have a housing crisis. I think everybody recognises that we have a housing crisis. Within that, we also have an affordable housing crisis. I can give you an example: only 1% of our Bristol residents can afford to buy a two-bed home in Bristol because of the rise in costs.

What have we been doing to address that? In temporary accommodation, our biggest cost is subsidy loss, and that is augmented by the fact that we have been relying on putting people into hotels, which has been very expensive.

We have been trying to work with our partners in Bristol to bring more units online that we can use for temporary accommodation. In some cases, that has meant that we have had to prioritise people in temporary accommodation over the general population on our waiting list. Our general waiting list is 21,000 households—that gives you the size of the problem—but we have 1,600 families or households in temporary accommodation.

We are one of the councils that still have a housing revenue account. Obviously we are facing severe pressures in bringing all our houses up to standard under the new regulations. We have now started to use our general fund to acquire temporary accommodation; we are acquiring 75 homes from the general fund so that we can address that problem. At some point in the future, once the HRA is back up to where we need it, we will probably transfer those homes into the HRA.

Councillor Williams: I would stress three things in what we are doing about the pressure. One is that the boroughs' forecast overspend on homes in this budget is £270 million, which is more than the homelessness prevention grant itself. One of the ways that boroughs are dealing with pressures in homelessness is to look at cutting their real-term spending in HRAs. They are looking at cutting the housing revenue accounts by £260 million. That is difficult to do because—as we have heard from Tony—at the same time we are having higher burdens in terms of regulation, which is important, and we do want to build homes. Cuts are happening there.

The second thing is that an increasing number of London boroughs are seeking exceptional financial support and, as you have heard already, that is not a long-term solution. We now have just under a quarter of boroughs seeking that EFS, and one third of local authorities nationally are seeking. That short-term fix is being sought.

The last thing is that boroughs are constantly thinking of what we can do to reform and encourage more effective early intervention and prevention. London, for example, is an area where from 2010 to 2023 we



have managed to reduce the number of children who are in care in a safe way because we have focused on building preventative services.

Another example is the growth of prevention services in homelessness. We have heard that we have many families in temporary accommodation. London boroughs are working hard on how to prevent that and help families to maximise their incomes and sustain their tenancies. We see a problem with the ringfence around the homelessness prevention grant. The ringfence around spend on TA cost is 49%. At the moment, boroughs are still spending 80% of that money on temporary accommodation. Those are the three things I would highlight about what we are doing.

Q57 Joe Powell: The previous two witnesses both mentioned the housing revenue account. Can you quantify the impact of the pressure on the housing revenue account's ability to build new homes and what would allow councils to get building homes faster again?

Councillor Khan: I would probably say the right to buy. Local authorities are able to keep 100% of that now. In Nottingham, we were not able to build for many years because of that decision. With a new Government coming back in, we had to pay back £10.5 million to the previous Government on right to buy, otherwise they were saying they would charge us interest of £1 million. We gave the £10.5 million back and then when the new Government came in, we wrote to them, and they gave that back. That is helping us to build again and helping our bottom line in temporary accommodation.

In Nottingham, we are bulk-purchasing beds for the nights, rather than doing it case by case, which is more expensive. Buying ahead saves us money.

Another issue is that boroughs and districts are placing people in the city as well and that is a problem, but their thing is about connectivity. That is an additional strain on councils. In Nottingham, for example, we have 11,000 people on a waiting list and are the 11th most deprived out of 317 local authorities. Child poverty is at about 40%, and when you look at these waiting lists and all the people in temporary accommodation, a lot of them are children. That is not how it should be.

Q58 Chair: The Government announced additional funding of around £500 million for local authorities to mitigate the impact of the increase in employer national insurance contributions. Is that funding enough?

Councillor Khan: No.

Councillor Dyer: No. The coverage for the national insurance contributions probably covered about 60% of our costs, so we still have an additional £3 million that we need to find from other areas. Also, the knock-on effect is that we commission a lot of services, particularly in adult social care, from third parties. They also are facing increases in national insurance contributions, so that puts pressure on the cost of the care packages. It is not just how it affects the council itself; it is how it affects our partners as well.



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Councillor Khan: The gap in Nottingham was £900,000. For a council in intervention, £900,000 is quite a lot.

Councillor Williams: Yes, it is a similar picture in London. For London boroughs, we expect the direct cost of the increase to be £160 million, but we will only receive £89 million, and then of course we have heard the additional issue around primarily social care commissioning. We think that the cost for London boroughs of direct NIC increases for those contractors is likely to be £150 million to £200 million. The issue of how we look at our current contracts will be important, but the increase has to fall somewhere.

Chair: We will take that back to colleagues.

Q59 **Mr Forster:** We are talking a lot about potentially reforming council tax, because I do not think that anyone would think this is a sensible way to fund local government. Obviously, the question is what replaces it. Do you think there should be a link between the amount of council tax that a council charges and the services the council provides? If councils had fiscal powers to set their own rates of council tax or other forms of tax, if they had more flexibility, do you think that would improve engagement and turnout in the elections?

Councillor Dyer: I look at Bristol's situation. Council tax has gone up by the maximum amount allowed this year, the previous year, the year before that and the year before that. That is five years in a row. One of the problems with that is that we have a lot of residents who are paying their council tax but, because of the pressures elsewhere, a lot of that council tax is being spent on very specialised services. What they are seeing is a general decline in what they see day to day—

Chair: Universal services.

Councillor Dyer: In street cleaning, parks and so on. In places like Bristol, and I suspect it is similar in most of the other core cities, the vast majority of our properties are in band A or band B. If we start looking at council tax, the first thing that has to happen straight away is revaluation of the various bands. People are in a ridiculous situation. I think I read somewhere that Buckingham Palace actually pays less council tax than a band C home in Oldham, which by any measurement is a ridiculous state of affairs.

The one thing that needs reforming more than any other is that in most local authorities there are people who are simply unable to pay their council tax. We need to support those people, but that is now being done essentially out of local authority budgets. In Bristol, we have a council tax reduction scheme that is costing us £43 million a year, with no support from the Government to help us provide it.

Councillor Khan: I would say you would get more people to come out and vote because they will tell you they do not want that to happen, and you would keep seeing local government parties in charge change. In Nottingham, 80% of houses are band A and B, so for every 1% we put up



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we get £1.5 million. You can compare that to a place like Surrey, which can put it up 1% and get £11 million. At the moment we clearly know that the council tax does not work, especially in poorer places.

Councillor Williams: It is a good question, but what are local authorities there to do? What do our residents expect us to provide? You have heard already that those big services, adult and children's social care and housing, are pushing up costs. For example, in Waltham Forest, about 60% of our council tax goes to those three services.

I would start—and I think the Government, helpfully, are doing so—with that broader agenda about local government finance reform. That is important because we have heard how regressive council tax is. The fact that it has not been revalued for 30 years is a massive problem. London boroughs in particular are sometimes perceived to have had low tax levels due to historical decisions, but in the main we have a higher-than-England average if you look at band D, which is the guide. However, the average that London residents are paying is far closer to the national average.

You have heard that geographically, and from a fairness point of view, a look at reform is overdue. A crucial point is that residents should be able to look at what we are spending locally and feel like they are getting a good deal for their money. How we look at council tax in that wider government finance and devolution piece, and how you look at how we increase our fiscal powers, would help to get a fairer system.

Q60 **Mr Forster:** I have two follow-up questions, if I may. All three of you said that council tax should be revalued, but you did highlight, particularly in Nottingham's case, that it is not a panacea because of the housing mix. What is the extra thing that could be the panacea? You have talked about people not feeling the benefit of their council tax because of the strategic services. If homelessness and adult social care were nationalised or properly funded, you would feel that would be the solution to empower people so they can relate to their council tax and the services they get. Is that correct?

Councillor Khan: Yes. In Nottingham, 75.9% of our net spend is on children's and adult services, so if that did happen, that would fix the broken system. However, I also think that there is exploitation from the private sector, because we are paying up to £1 million for a young person to be cared for and it is an unregulated market. Demand is obviously outstripping the supply so they can charge whatever. Nationally, something needs to be done about that. People must not exploit councils.

Councillor Dyer: I would add that having some control over elements of council tax locally would be a positive, but you are absolutely right: it is not a panacea. Council tax in general probably is not a solution to how you raise funds locally, but if we are staying with council tax, here is a radical idea—in the earlier conversation you were asking about radical ideas.



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The Government have a housing target of 1.5 million homes. In Bristol, we currently have 16,000 homes with planning permission. About 3,000 of those are under construction; another 3,000 or so are in the early stages. Beyond that, we have probably 9,000 to 10,000 homes with planning permission that are simply not being delivered. We would like it if once they get to the end of their four-year planning permission, we were allowed to charge them council tax. In Bristol, even if it was just band B council tax, that would bring us in £17 million to £20 million a year that we could then invest in those wider services.

Chair: Radical. Lewis, did you want to come in quickly?

Q61 **Lewis Cocking:** Yes. When you are giving the Committee examples, it is useful for us if they are like-for-like examples, not examples that we know are different anyway because of the number of people paying council tax or what have you. On council tax specifically, do you agree with the referendum cap? If there was no cap, I get that you cannot sit here and say, "Well, we would raise it by X," but is it likely that you would raise it by more than what the cap currently allows?

Councillor Khan: If I am honest, I am against raising council tax by more than 5%, because you are putting more burden on local people who are already having to pick up a lot of these costs. What are they actually getting for that tax? I do not think it works, because you are putting more burden on local people who cannot afford it. Then, for example, if they are not paying their council tax then you are putting more pressure on them. Then they come around in the system again, because there will be a family who could probably lose their home and become homeless, get into temporary accommodation and then have mental health problems. There are a lot of issues and a lot of people are feeling pressure.

Councillor Williams: The focus on local government funding reform needs to sit across council tax rather than fixating on council tax and referendum limits. We have seen that for some of the councils that are now seeking exceptional financial support, raising council tax is seen as a short-term crisis measure, and it is not popular.

We need to look at systematic reform to government finance, so it is good to see the Government consulting on things like how we can restore the relationship between levels of deprivation and levels of funding, fundamentally looking at things like how we make sure we account for homelessness pressures. How do we make sure we have a fair area cost adjustment? How do we make sure that the formula emphasises that push towards prevention and early intervention? We do need to be radical and we do need to be systematic, rather than just focusing on short-term fixes around council tax levels.

Another thing is about those radical ideas about what we would do if councils had additional fiscal powers. How can we better align our economic incentives with local tax staying local? How do we make sure that our local fiscal powers can encourage growth? Looking at that big



picture and focusing on the long-term fixes is necessary if we are going to be in the position of fewer councils going into EFS.

Q62 **Lewis Cocking:** You have mentioned lots of things that would get more money from central Government to cities, but do you think rural councils should be compensated? In some instances, in a rural authority, it costs more to collect the bins than it would in your authority, for example.

Councillor Williams: That is an excellent question, but I think you heard earlier on that we are all singing from the same hymn sheet. We may be facing a different combination of pressures—adult and children’s social care and homelessness and so on—but the issues are surprisingly similar.

On the issue of how much it costs to collect your bins, you are completely right that it costs more to drive further between houses in your bin contracts. However, urban areas have the problem that we have a much higher proportion of homes that are flats, so our recycling rates are much lower and we have to work harder on fly-tipping and recycling. It is important that the area cost adjustment is done in a nuanced and sophisticated way that recognises that we all have different pressures, but there has to be that fairness point. I was pleased to hear the comments from colleagues earlier.

Councillor Dyer: We went out to consultation on our council tax before the Government decided what the cap would be. We consulted on everything from a 0% to 10% rise on general council tax and a 0% to 5% rise on the social care precept. We had a majority in favour of a rise above what we ended up with, which is 4.99%. However, when you break that down by income decile, the poorest people were the most opposed to any council tax rise at all. That goes back to what Neghat was saying. I would be concerned about an increase in council tax even where people were in favour and willing to pay more, if I was not able to protect our lowest income households.

Chair: This is an area that will continue to rumble on, and maybe it is a shame that the Government have not put forward any proposals to update or reform council tax, which Minister McMahon did confirm.

Q63 **Mr Forster:** I want to dive into Nottingham’s issues, and I say this as MP for Woking, so you have my sympathy. Could you explain briefly to the Committee what led to Nottingham City Council issuing a 114 notice two years ago? What were the consequences? Do you think it helped Nottingham to regain financial stability? Finally, what lessons can we as a Committee and other councils learn from your experience?

Councillor Khan: I am still trying to work out how we got issued with a 114. I think it was that at the time our section 151 officer was looking at the situation and we had a gap of £17.6 million, which was a 6.7% overspend. He decided to issue a section 114 because we were using reserves at the time. We were not able to question that, but the concern is that, if you look at the balance sheet, our reserves went from £8.9



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million in that year to £22.7 million. We issued a 114, but at the same time we put £13.8 million in reserves.

We are not sure if any dialogue took place with the Government to see what could have been done, but I think afterwards there were some concerns raised about whether that was the way it should have been done. But once you issue a 114, it kind of locks down and the council spend goes to the 151 officer. People think your council has gone bankrupt, but if we were bankrupt we would not be sitting on more than £63 million today in reserves. There are some concerns that we will deal with, but even this year we have set a balanced budget, we have put £1 million in reserves, and we have not used any reserves.

We have had exceptional financial support. We have the ability to get £41 million; we are looking at using £35 million of that. We have put in for an additional £25 million next year. I do not think we will need it all. Hopefully by 2027 or 2028 we will not need exceptional financial support. Exceptional financial support is not a loan from Government; you can sell your assets to pay for your revenue costs, but it has a negative impact on your capital programme. There is stuff that we have not been able to fund because the first call on selling assets is on exceptional financial support. We have kind of stood still, and in local government that does not help.

But the distress sounds come when you are using more reserves. Yes, I think you have to look at it, but in Nottingham we have commissioners in and we are paying £1,000 a day for each of them. I do not see ourselves as a council in distress. We probably will not get that lot, but we have good commissioners who are helping us and I think it was the alarm bells that went, but we are on our way out there.

Q64 **Mr Forster:** Can I talk about EFS and potential solutions? EFS is the tool that the Government have to help councils with finance. It is effectively a loan to buy councils time to sell assets and transform services that they cannot do quickly. It is so that we as councils can live within our means eventually after a period of transformation. It buys you time, but if time is not the problem when you are cutting services or saving money, there does seem to be a problem. What are the panel's thoughts on that understanding?

Councillor Williams: You are completely right—you could say that it buys time—but in London we have two councils who have needed EFS for a couple of years now. As they go through that process of using their viable surplus assets, selling, and then capital receipts being exhausted, the amount of EFS they need is growing. That is the real worry with the two boroughs that have had it for a couple of years. I wonder if that is an experience that Nottingham has had.

Q65 **Chair:** Grace, are you effectively saying that EFS has not been effective?

Councillor Williams: We have heard in both these sessions, and you have obviously experienced this in your borough, that the reasons for seeking EFS are quite varied. I am sure there are different experiences,



but in London we have two boroughs that have had EFS over those couple of years, and it is not helping, because over time they are having to pay more of that debt and the situation is getting worse for them year on year.

Councillor Khan: I would probably add that it is not a loan. It is not like the Government are giving you the money. They are telling you that you can sell assets, so you have to sell them, and if you do not sell them then you are borrowing from the market to pay that back, and then there is interest. But when you sell an asset, it is gone. You can only sell it once, and it creates a revenue pressure. In the early days, we sold things that were not probably making us much money, but now we are in that territory where we are losing revenue.

Q66 **Chris Curtis:** We talked a little bit about council tax and reforms that might have helped. Do you think there are any more taxation powers that should be devolved down to local councils that would have helped you avoid some of the challenges that your councils have been facing?

Councillor Dyer: Let us take a wider view. This is something that has come up in a number of reports; Centre for Cities is particularly alert to it. We need to compare what is happening in the UK, with our second-layer cities like Birmingham, Nottingham and Manchester, which should be driving the economy, with what is happening in Germany, France and other European countries, where the second-layer cities are driving the economy. Centre for Cities has identified that if local authorities in second-layer cities in England, Wales and Scotland were put in that same position, it would add £100 billion a year to the UK economy. One of the things I have come across quite a bit is how much difference we have in our flexibility and in our powers to make decisions that would put us on a similar level to other European cities.

It is not so much about additional taxes; residents already feel that they are paying enough in taxation. It might be something like declaring a certain percentage of local income raised in a particular local authority as being available to that local authority to decide how to spend. The Government could put mandates on what sorts of outcomes they want from that spending but, within that, allow the local authorities the flexibility to decide how to spend it.

I have already mentioned being able to charge council tax on unbuilt properties. A tourism tax was also mentioned, and we would like to look at what the Welsh Government in particular are doing and some of the options available there.

Another key element is about enabling us to work with private partners locally in much more of a partnership way. At the moment, there is a feeling that when the public sector and particularly local government work with private companies, they are worried about being taken advantage of. Often that is because of a lack of expertise, because the local government sector in particular has been hollowed out in a lot of areas. In Bristol we have done some of this with things like City Leap and



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a couple of other investment areas, mainly looking at net zero and similar areas. There are opportunities there. It is not just about local taxation; it is also about enabling us to take advantage of private sector investment from within our own local authorities.

Councillor Khan: In the list of local authorities, 11 of the 42 are in the top 100 of most deprived areas as well. It is easy to say, but if we could fix the system fundamentally for adults, children and the homeless, that would help all local authorities, whatever the main culprit is.

Councillor Williams: I would only add that if our abiding mission is growth, how we can incentivise growth in local communities has to be the key, because otherwise we will be focused on how we divide up a smaller and smaller pie. Residents want to see local authorities have more control over how their councils deliver services. The opportunity of devolution is for us to look at those fiscal powers, which are something that perhaps has not had that much focus yet in terms of how we retain our business rates and how we retain council tax. We have talked a bit about a tourism tax and a new growth and skills levy. Those things will be what drive change. Otherwise, we are looking at recycling the same issues and not finding those long-term solutions.

Councillor Khan: I can give an example. In Nottingham, we have a workplace parking levy that brings in income, and we spend that on our transport. That is why we have the best transport outside of London. I want to get that in there.

Councillor Dyer: That is also why Bristol wants to look at bringing in a workplace parking levy, because we have the worst transport outside of London.

Chair: Thank you so much for coming this morning, and apologies that it was a bit curtailed in the second session, but you have given us some ideas. The key words that come up are "local government reform" and "finances". As we go on with this inquiry, we will be looking at areas where we can push the Government to be more radical.