

Public Accounts Committee

Oral evidence: Local Government Financial Sustainability, HC 647

Thursday 3 April 2025

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Members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Anna Dixon; Sarah Hall; Lloyd Hatton; Rebecca Paul; Michael Payne; Oliver Ryan.

Abdool Kara, Executive Director, National Audit Office, Vicky Davis, Director, NAO, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-115

Witnesses

I: Professor Tony Travers, Professor in Practice and Associate Dean of the LSE School of Public Policy, Department of Government, London School of Economics and Political Science; Councillor Pete Marland, Leader of Milton Keynes City Council and Chair of the Local Government Association's Economy and Resources Board; and Iain Murray, Director of Public Financial Management, Chartered Institute of Public Finance and Accountancy.

II: Sarah Healey CB CVO, Permanent Secretary, Ministry of Housing, Communities & Local Government; Will Garton, Director General Local Government, Growth and Communities, Ministry of Housing, Communities & Local Government; Nico Heslop, Director of Local Government Finance, Ministry of Housing, Communities & Local Government; and Conrad Smewing, Director General, Public Spending, HM Treasury.



Report by the Comptroller and Auditor General Local government financial sustainability (HC 691)

Examination of witnesses

Witnesses: Professor Tony Travers, Councillor Pete Marland and Iain Murray.

Chair: Welcome to the Public Accounts Committee on Thursday 3 April 2025. Local authorities in England are responsible for delivering a huge range of essential services to residents, including social care, housing, planning and school provision, but in recent years local government has come under extreme financial pressure as it battles to continue to deliver those services against a backdrop of rising costs. The Committee has heard in its recent inquiries into tackling homelessness and support for children and young people with special educational needs how local authorities are failing their residents as a result of crumbling finances and enormous demand for the services.

Today, we are fortunate to have with us a panel of witnesses with a wealth of knowledge on the subject. We hope to hear their views on the state of local government finances, as well as what they believe should be done to improve the financial health of local authorities. We will question Government officials later this morning, with the benefit of this panel's knowledge and their responses to us.

I am pleased to welcome a regular attendee at this Committee, Professor Tony Travers, professor in practice and associate dean of the LSE School of Public Policy. Welcome back, Tony. Councillor Pete Marland—I think you have been before us many times, too—is chair of the Local Government Association's economy and resources board. Welcome. Finally, but by no means least, we have Iain Murray, director of public financial management at the Chartered Institute of Public Finance and Accountancy, commonly known as CIPFA. All three of you are very welcome.

We have an awful lot to get through in the next three quarters of an hour, so please do not feel that you need to repeat anything that anyone has said previously. First, we have a lot of colleagues with interests to declare, so let us get that out of the way.

Michael Payne: I am a member of Gedling borough council and, until May, of Nottinghamshire county council. I am a vice-president of the Local Government Association and a member of a number of trade unions that represent staff in local government. They are in my entry in the Register of Members' Financial Interests.

Oliver Ryan: I am also a vice-president of the Local Government Association and a member of several trade unions that represent local



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government workers, as in my declaration of interests. Although not now a councillor, I was previously, and a member of the LGA economy and resources board when it was just the resources board. I was also on the exec of the LGA Labour group for some years.

Mr Betts: I am a vice-president of the Local Government Association. I am a member of the Unite union. I was also a councillor, but that was long ago.

Chair: We all thought it was yesterday.

Sarah Hall: I am a former member of Warrington borough council and the cabinet member for children and young people. I am also a member of several trade unions, and they are all outlined in my entry in the register of interests.

Rebecca Paul: I am a serving Surrey county councillor. I am also a chartered accountant and a member of the Institute of Chartered Accountants of Scotland. I am also a chartered tax adviser and so a member of the Chartered Institute of Taxation.

Lloyd Hatton: I am also a member of a trade union, the GMB, which has local government workers in its membership as well.

Q1 **Chair:** It seems that the Chair is the only one who does not have an interest to declare on this one. I will ask all three witnesses an opening question, where you will be able to make an opening statement saying more or less what you want. Then my colleagues will zero in and ask more precise questions.

Professor Travers, how do you characterise the current financial health and resilience of local government?

Professor Travers: Thank you for inviting me to come and give evidence this morning.

The position is shaped by a long period—15 years really—of constraint on local authority budgets across the board. That came about initially for obvious reasons: the Government of the day were trying to bring down the deficit in order to take back control of public finances after the big increase in public spending after the banking crisis. What happened is that the period of constraint has continued for longer than was expected.

That has led to local government spending being lower today than it was in 2010, but within its overall spending local government has protected adult and children's social care, which means that all other services—street cleaning and lighting, parks and gardens, leisure and so on, the neighbourhood services that tend to be the ones people see outside their front door—have been put under even greater pressure. In some cases, local authorities are spending 30 or 40% less today than they were 15 years ago. It is a long-term impact.

Having said that, some local authorities—those with section 114 notices and so on—are clearly in extreme distress, though mostly for one-off



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reasons that are not generic to the whole sector. Other local authorities are actually in quite good financial shape. The normal distribution of financial distress, with some authorities having significant problems and others having virtually none and in very good financial condition, means operating across the sector for any Government—the former one and this one—is quite difficult.

Q2 Chair: I am sure we will want to unpick a lot of that in a minute or two. Councillor Marland, do you have any additional thoughts? Do not necessarily repeat what Professor Travers has said.

Councillor Marland: It is very bad. This year, to deliver the services that we were delivering on 31 March, there is an £8 billion gap in local government finance we have to find in-year. If you look across the whole of the period projected for the comprehensive spending review, that goes up by about the same every single year, just to deliver what councils are doing now. I do not think any of us in the room or in local government believe that in this situation the services that we currently deliver are to a level or standard that we want to be delivering or that can deliver the Government's missions. That is absolutely critical.

The two blocks where the biggest spending pressures occur, children's services and adult services, are highly regulated. There is not very much you can do about them. The level of statutory service that a section 151 officer, director of adult social care or director of children's services, would have said was statutory 10 years ago is not the mark that we are delivering today. I am sure Iain can comment on that. That obviously has an outcome in terms of the number of children who have to be looked after, the lack of preventive services and the number of people going into hospital. Other pressures, including temporary accommodation, are new.

That does not take into account what local government could be doing to drive reform, for instance in relation to the welfare changes that the Government announced last month. If we are talking about getting people back to work—people who may not have been in the work market for a generation or more—the resource needed to deliver those services is non-existent.

We in local government can have an esoteric debate around the numbers and becoming sustainable; we can say, "You are just delivering your statutory services, bins and a couple of extra things. Well done." But as a council leader, and on behalf of the sector, I would say that putting up council tax by 5% a year is not a choice any more; it is needed just to deliver baseline services. We as a local government community would like to go beyond that and deliver real change for our communities. We would like to provide resident with not just a choice between doing this and doing that, but a political choice. As things narrow, there is very little difference between what political parties can offer. At that point, it is very challenging for a politician, somebody who is responsible to the public, to say, "We could do this or we could do that." I think it takes away that local choice from residents as well.

Q3 **Chair:** We will come back in a minute to what some of the cures for that might be. Let's turn to Iain Murray of CIPFA.

Iain Murray: Thank you for inviting me here this morning. I echo what Tony and Pete have said. I think our take is that bits of the sector are certainly either at or beyond a tipping point now. To bring that to life, the most recent analysis through our financial resilience index shows that councils in the upper-tier authorities are now spending somewhere between 75% and 80% of their resources just dealing with demand-led services, rather than all the other things that local authorities have to do. If we go back to 2016-17, that was nearer 60%, so there has been a stark increase. Funding is being reduced, but demand for those services is increasing exponentially.

The other issue is some of the short-term measures that have been in play and what those actually mean. To set balanced budgets in 2025-26, 30 councils needed to enter the exceptional financial support regime. That means that there are 30 councils that without that capitalisation directive would not have been able to balance their budgets and would have had to consider issuing section 114 notices.

I know that the Committee has had an inquiry into SEN provision. Recent analysis estimates that by 2027 the cumulative deficits on those services could be anywhere between £6 billion and £8 billion. That is not being recognised in councils' positions at the moment because of a statutory override. Once you get behind some of those facts and figures, it is quite a stark position. Increasingly, councils are being asked to do more with less and less. This Committee's inquiry is welcome and timely in that respect.

Chair: Thank you all three very much; those were very helpful opening remarks. I will now pass to my deputy, Clive Betts.

Q4 **Mr Betts:** Tony, you are an independent reviewer of this scene. We have heard that the Government are going to bring in reforms as part of the spending review. How optimistic are you that those will actually improve or sort out local government's financial sustainability?

Professor Travers: Any Government would have difficulty here—certainly the current Government, but it would have been true of the former Government too, who did try, through fair funding reviews, to recast the measurement of needs that underpins grants to local authorities. The challenge is that, because there has been now quite a long period since the uprating of the needs measurement within the local government formulae, any change that brings in loads of new data and new population projections based on the last census will inevitably lead to significant shifts of spending power from one council to another. The challenge then is that, if most authorities are spending slightly less today—in some cases, significantly less—than they were 15 years ago, redistributing funding will simply leave some authorities slightly better off and others even worse off, unless there is a significant amount of extra money at the point of the reform. The challenge, of course, is that there is not, for any Government,



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a significant amount of extra money available because of the constraints on public finance.

Q5 **Mr Betts:** Your understanding, then, is that these reforms are really just going to be about moving around the existing money in the pot.

Professor Travers: Yes, inevitably, although it is true that the last three or four local government finance settlements under the previous Government and this one have been a little bit more generous than those of the preceding 11 or 12 years.

Q6 **Mr Betts:** So you are not optimistic that there will be any significant reforms that reshape the whole of local government finance in terms of addressing the causes of demand or the money that is raised.

Professor Travers: No, I am not.

Q7 **Michael Payne:** Pete, I put this to you as a practitioner in local government. The reforms that Clive has just touched on include the strengthening of the standards and conduct codes, the local audit system overhaul, and local finance reform in terms of the finance system itself; now, local government reorganisation has been thrown into the mix. Those are four pretty big reforms. How do you think they should be sequenced in the Government's approach? They cannot all come at once, can they? How would you like to see them?

Councillor Marland: Do we have a choice? *[Laughter.]* Pick 'n' mix. I think it is fairly clear that Minister McMahon has a huge agenda in front of him and has had to pick up a pretty broken system. Those areas have different functions. With the priority pathway and devolution, it is very clear that most of the submissions will have been made by the end of the year. That will no doubt take up some capacity in MHCLG. This is happening; it is not a matter of how I would prefer to see it sequenced.

Local government audit is obviously a huge issue in terms of national public accounts. We have not been able to sign off the national accounts, mainly because one of the issues in local government is that we have not been able to sign off many local government accounts. I am sure you can say more about that, Iain. I would put local audit at the top of the list.

Local government reform and the fairer funding settlement are going to come through the CSR. I know the LGA are working, as are a number of organisations, on how that formula will work, and there is no doubt that that will move its way through the system. It will be interesting to see, when the CSR is done in June or July, whether that is going to be the final funding formula; the Committee might want to form a view on this. Will it say, "This is how it's going to work," or will it go to a consultation stage? How will that fit in to three-year funding settlements? You did not ask about three-year funding settlements, but I think they are extremely important to mapping out local government sustainability, because they give local government certainty when planning, preparing for and smoothing some of the changes that might come, such as the retention of business rates.



Q8 Michael Payne: I have a follow-up for Tony and Iain. You touched, Iain, on the exceptional financial support regime. I think there have been 42 councils since 2020-21 that have been in need of exceptional financial support in terms of a capitalisation order. What else do you think the Government should be doing immediately to support local authorities? Obviously, there remains an immediate challenge for local government in terms of providing for their local communities.

Iain Murray: The money is one of the questions we need to answer, but just addressing the money does not solve the underlying problems. If you reform funding but do not look at service reform alongside that, effectively you are just pouring more money, or different buckets of money, into different parts of what is already a quite broken system. The bit that is missing, or is not as clear at the moment, is what are we going to do in addition to funding reform in the conversation about what local authorities are for, what they should do and how they should do it?

Although LGR is obviously a hot topic in the sector at the moment, devolution is a really interesting part of it. Where is the balance between a strategic authority and a delivery authority, and where might different powers sit? That is the missing bit for us. We can talk about the money, but if we are not changing what the money is being used to deliver, we will just end up in exactly the same problems.

Professor Tony Travers: I certainly agree with that. Just to add slightly to it, I think there is a need for a longer-term stand-back consideration of all the changes that you have just listed, which are going on at the same time. It is an enormous amount for individual local authorities, many of which are having to consider quite substantial reorganisation structurally. Despite all the excellent consultancy work on the subject, I am not 100% convinced that reorganisations actually save money, but still—we will see.

With the reorganisation and the reforms to finance going on at the same time, and with the lack at the moment of a developed local audit office, which is another thing, it is very difficult for the Government, even with the best will in the world—given that they are giving evidence next—to know exactly what is going on in each individual local authority. It is such a patchwork; it differs so much. That is the real problem. And the exceptional financial support regime is very bad government. It is literally capitalising; it is selling the family silver and it is not a long-term solution.

Q9 Chair: That is a helpful answer. May I just follow that and reply, Tony, because I do not think we are going to cover this issue elsewhere and I would like to cover it briefly? It is this business of local audit. In 2022-23, only 25% of the councils actually submitted their accounts on time. It worries me that we are in this situation. We are moving to even bigger councils, with bigger budgets. We really need to be able to track where this money is going to.

Do any of the three of you see any light at the end of the tunnel—a solution beginning to emerge to this local auditing problem? The local audit office or maybe the Government—some of those proposals. I do not



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know whether any of you want to tackle that.

Professor Tony Travers: My colleagues will know a lot more about this than me, but I will just start by saying that it is an abject failure that so many authorities are so far behind in providing final audited accounts. Some of that is because of the lack of oversight, which the abolition of the Audit Commission— I should declare an interest. I was a member of the Audit Commission a long time ago, before it was abolished. That is part of the problem, but also there was not enough money in the system to pay the auditors. That led to problems as well.

Without question, with the existing system of local government, and certainly with one that is about to undergo the major reforms that are going to take place, with lots more combined authorities whose finances are very difficult to understand fully, we will need a much tighter audit regime and the certainty that final accounts are produced as soon as is humanly possible after the end of the financial year.

Q10 **Chair:** We have an awful lot to cover, but do either of the other two witnesses want to add anything specific to that?

Councillor Pete Marland: Without wishing to push back a bit, although 25% of councils submitted audited accounts, it would be wrong to say that only 25% of councils had accounts. Most councils—the vast majority of councils—have prepared accounts. They have just not been audited and therefore they have not been able to be signed off. I am sure that the councillors or the previous councillors on the Committee will understand that.

There is an issue around skills in the sector. There is also an issue around pay in the sector. There just are not enough auditors in the system and there is an increasing complexity of accounts. I know that a number of you will be from councils that now have extremely complex accounts, particularly because of wholly owned companies and things like that.

However, I would push back very strongly on behalf of local government to say that this is not just a local government problem. Our accounts—my own council's accounts—sat with the auditor for two years. They were not signed off. Then we got a 56-page report to tell us why they were not auditing the accounts. The next year we got a 40-page report auditing the accounts. So, a report telling us that they were not auditing the accounts was longer than the actual audited accounts. You work that out.

Q11 **Chair:** That is helpful. Thank you.

Iain Murray: As a former Audit Commission employee and a public sector auditor, I should probably be careful about what I say.

It is a huge issue and a massive missing piece of the jigsaw, but it is only one piece in the jigsaw. Audit, by its nature, is a retrospective act, so there will always be limitations around the role it can play. The right questions to ask are: "What are the early warning systems? What are the bits of assurance the sector needs, and where can they come from?"



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With local audit, the Government have grasped the nettle. Policy is being developed, but it will not be easy—it will be a long road. We can almost place too much significance on external audit. Other things in the system will allow us to get the assurances we need and help spot the problems early, while they are small enough for a small intervention, rather than big ones that require massive interventions. While external audit is important, we may run the risk of placing too much significance on it. There would be benefit in having a broader conversation about other sources of assurance for Government and councils when they are going through this tricky period.

Q12 Chair: I think you might have just segued into your own evidence. Can you tell us about the CIPFA-led assurance reviews and how they might help?

Iain Murray: We work with local authorities that find themselves in difficult positions. We have also worked with MHCLG particularly around the exceptional financial support regime. We find a number of things. Increasingly, we are seeing that councils that are otherwise reasonably well run are finding themselves in difficulties. However, there are always things they can do to improve that position. Some of those are not very palatable—we might touch on whatever the minimum service levels might be—and some are just about controlling day-to-day expenditure.

Sometimes governance and internal control are not seen as very exciting things, but they are essential and sometimes people do not get the basics right. Where we do that work, we try and share those messages with the sector. Increasingly, we find that we are not walking into councils with things completely out of control; it is just that people are doing what they can, as best as they can, and it is those demands and the funding we are talking about that are causing the issues.

Chair: Time is inevitably moving on. We will have to keep questions and answers fairly tight—one question per person. I will call Anna Dixon, who I believe has interests to declare.

Q13 Anna Dixon: Apologies for being late, Chair. My only interest is that I have worked professionally in adult social care in the past before coming to this place. The NAO Report identifies many different reasons why the councils find themselves in the position they are in, both financially and in service challenges; we have touched on some of that. From your last remarks, Mr Murray, you suggested that those issues are very driven by external funding. Do you see any further opportunities for improving efficiency and productivity that local government could take?

Iain Murray: I think it is funding and demand: you have to consider both. There are always opportunities for efficiencies and productivity, but again, we need to be careful about thinking there might be a panacea to solve all the issues that local authorities are facing. Local government reorganisation—I would agree with Tony—will have a cost associated with that, as with any change. Some benefits will be realised quite quickly, though lot of the others—in terms of service realignment and some of



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those efficiencies—will take time to bed in and be realised. The issue, as I see it, is whether we have that time, and whether we are going to see more councils in more difficult positions in the near term before we can realise some of the benefits associated with those long-term reforms.

- Q14 **Anna Dixon:** What you said definitely resonates with Bradford council, which is my local council. Over the decade leading up to 2024 it made some £350 million in savings. A point comes where there is no further to go in making savings, which is why it resorted to exceptional financial support. Even with that, it leaves a gap. Obviously, there are children's social care costs, and we have heard in this Committee about other things, such as temporary accommodation costs for out-of-area placements for SEND children. Are there any of those areas where you think that, on a cost basis, local authorities could be doing things differently to get better value for money?

Iain Murray: It is quite difficult to characterise the whole of the sector in one answer. I suspect that there are pockets of good practice and pockets of poor practice across the sector. I do think that the demand curve for SEND in particular is just huge. Even if you are delivering your services so that your unit costs, for want of a better phrase, are as low as you can possibly make them, just the demand means that that will be an issue. And the way that demand works in SEND is baked in; the moment that a child is on an EHCP, they are then in need of support for a long period of time. I know there is talk about writing off SEND deficits, but if you wrote SEND deficits off today, tomorrow we would start accumulating a new one. With these sorts of things, while we can do things in the productivity and efficiency space and there are opportunities there, we should be sceptical about whether those will be enough, and deliver quickly enough, to address those problems.

- Q15 **Anna Dixon:** Would you like to comment on the funding gap with the rising demand? Again, Bradford council is very typical, with 33% of its budget now going on adult social care; with all of the council tax that it raises, it cannot even cover the cost of children's social care. Even these statutory services are dominating local authority budgets, yet demand, complexity and costs are rising, so it is really challenging for local authorities to bridge that gap.

Professor Tony Travers: Given that the Committee looks across the whole of Government, what is interesting about some of the things we are talking about this morning is that the build-up of deficits on the schools grant, for example, was the result of a central Government policy change in, I think, 2013. That was a result of a policy change that increased demand. On the need for temporary accommodation, a lot of that comes because of Home Office and other policies interacting with the housing system more generally, creating extra demands for temporary accommodation. And if you go further back, reforms to social care funding in the past have led, in part, to where we are today. So I think the whole of Government needs to think, when making policy decisions, whether those will impact on demand for local government services, because at some level—the DSG being the clearest example recently—demand

increases because of a policy change in Whitehall, and local government simply has to manage it.

- Q16 **Anna Dixon:** So that would obviously be the Department of Health and Social Care on social care, where we have reform coming. Specifically there, in terms of the gap for local authorities, we have had evidence from Mencap, Sense and the Homecare Association, all basically saying that they are almost not meeting their Care Act obligations. Councillor Marland, do you want to elaborate further on this challenge between supply and demand, and how you see this, not just with changes in policy, but with changes in demand on your services?

Councillor Pete Marland: I think there are two ways to look at it, with maybe one outcome. Demand can be managed, and it is about how you manage that demand, and the services you provide to manage it. When you talk about reform, I would say that there are two aspects to that. The first is what individual local councils can do to ensure that they are delivering the best-value services at the lowest unit costs, and that can mean reform of how you do things.

We have a balanced SEND budget in Milton Keynes—I think we are one of only 12 councils to have that—but that has involved a lot of change, and we have been able to do that in Milton Keynes because we have something called the tariff. Because we grow a lot, we are able to invest in new facilities, including in SEND facilities, and work in partnership with schools to build them extra classrooms to ensure that SEND children can be educated in mainstream education.

So, councils can individually both reform and change the way that they do services, but they have to have the margin to do that, and that margin, and the ability to invest in some of those changes, has been limited because of the risks in other service areas. You cannot take a risk in one area if, by failing, you would end up having to put it over here and write it off against something else.

The second aspect is about what Government can do as well. Tony was right: Government changes are often done in the best interests of policy, but then have an outcome. Often, we don't focus enough on outcomes in local government. It is all about, "We have a gap and it needs funding," but it should be about how, by working with Government, we can bring that gap down by doing services in a different way both locally and nationally, and by working together. That is the fundamental question—how can we concentrate on outcomes? Just pouring money into the SEND system won't work, because the outcomes are not very good. Just pouring money into adult social care won't work, because the outcomes are not very good. If we all understood the outcomes that we wanted as a nation and society, we could work towards them and understand what sustainable means, as opposed to talking about an individual unit being sustainable.

- Q17 **Michael Payne:** We have recently seen record investment in the NHS to try to shift away from treatment to prevention. I am interested in the

panel's views on what the Ministry of Housing, Communities and Local Government and the Treasury, working together, should be doing to help local government shift more to prevention, at the same time as dealing with the very high and increasing demand in services.

Professor Tony Travers: I referred to this in my written evidence: the curiosity of public policy. The period from where you can have good comparable data begins in 2016. Public health was transferred to local government three years before that, but it is hard to make comparisons before 2016. From 2016 to today, public health spending has fallen by 10% in real terms, while NHS spending has gone up by 20% in real terms. Clearly, prevention would be better than cure, so Whitehall—central Government—needs to think long and hard about helping public health function to stop people needing the NHS.

Councillor Pete Marland: Yesterday was a great example. A lot of this is about how it is framed. Yesterday, there was the announcement about dentists, and the LGA was very clear that there is a hell of a lot of tooth decay and there are fewer dental places. More money into preventive services would stop the need for a lot of emergency dental appointments. The framing is really important because, as local government, we can be seen to be saying, "We would like money for this, please," as opposed to, as Tony has just said, "Investment in public health can drive down the cost and need for dentistry," in the same way as it could drive down the need for GP access or hospital access. It is about how we frame this to the Treasury around how we can unlock service reform.

I would just add a note of caution around health and adult social care. As an ageing society, we need to make sure people do not go into hospital, but as many of you will know, our adult social care bill in Milton Keynes is currently split about 55:45 towards people who are 18 to 60 and have lifelong, enduring conditions. In many places, it is about 50:50. There is very little you can do to keep the costs down on a 25-year-old who is severely disabled and unable to work and has a lifelong condition. That is not a matter of bed blocking in hospitals, although they can present and end up on unnecessary hospital visits. Although there is definitely a huge amount we can do to drive down costs in the NHS, it is seen as a little bit of a golden bullet that could fix everything in social care. Absolutely it couldn't, because a lot of cost drivers are completely unavoidable.

Iain Murray: We are doing some work at the moment with the Health Foundation, looking at preventive spend in local government, but not looking at traditional social care and healthcare. Some of it is actually about acknowledging what bits of spending in local government are investments in prevention in terms of health determinants for the population. That includes things like leisure, education, housing and access to open spaces. Huge amounts of what local government spends money on are an investment in the nation's health and wellbeing. That is a piece of work that we are doing at the moment. I will go back to Pete's point about outcomes; we have to be clear about the outcomes, but then they have to be shared across Government. As long as a benefit is accruing to a resident or a citizen, it should not necessarily matter where the cost is



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being incurred. Until we can have those conversations, making the case for change around prevention will always be that bit harder.

Councillor Pete Marland: That is a very strong case for place-based budgets.

Q18 **Michael Payne:** Returning to the point about local government reorganisation, do you think there is a risk that this becomes a huge distraction? So we are instructing local government to reorganise, but actually, people know that potentially by the end of this Parliament many of the existing councils are still going to be in place.

I hear quite a lot—as I am sure my colleagues on the Committee do—from constituents who are happy with their local council, and they would like things to stay the same. They think the council is pretty well run. You hear people saying, “Well, what’s my involvement in this as a taxpayer? As somebody who lives in the local area, at what point am I going to be asked my view about the council that will be running the services in the future?” Does the panel have a view on the point about distraction, and is it a distraction given some of the challenges you have highlighted in today’s session? I also want to ask about community involvement.

Professor Tony Travers: Inevitably, it will be a distraction, and there will be short-term costs. I think there is no question that whatever the long-term potential benefits, which we have discussed separately, it will be a distraction, and it will cost money in the short term.

Councillor Pete Marland: I think it is about up-front funding to make sure that proposals for whatever authorities come out of it are sustainable and will work well, and we should make sure we map that through. I think the evidence shows that where money was invested in counties and districts that were previously converted to unitaries—where that effort was put in up front—there have been more savings, and the ones where there was not such a complete review of sustainability are those that perhaps have not succeeded.

Q19 **Chair:** Councillor Marland, this was one of the ministerial announcements: “I am pleased to announce that £7.6 million will be made available in the form of local government reorganisation proposal development” funding. It seems to me that that is a drop in the ocean considering what is going to be done, or undone.

Councillor Pete Marland: I probably have to declare an interest in that I have heard Minister McMahan speak about this. In terms of long-term, worked-up transition proposals, that is a low amount. I think the amount is specifically to work on what the boundaries of proposals may be, and how those new councils would fit together in constituent blocs. What the LGA would hope for is that when the Government have decided what the boundaries of those new authorities might look like, there would be more funding for actual implementation plans for those. I do not think that the £7.6 million refers to implementation plans; I think it refers to what the outline of each constituent authority might be.



Chair: Thank you for that clarification.

Q20 **Mr Betts:** I will come to Iain Murray first. The challenge of local government finance would be bad enough if we were just sorting out the here and now, but when we look forward, we have the legacy of the deficit built up over SEND, and we have capitalisation for revenue. A number of authorities are effectively not balancing their budgets now on a day-to-day basis. What is your view of that, as an experienced professional in the field?

Iain Murray: An easy one to solve—thank you. The answers are not easy, and as Tony alluded to earlier, if we are talking about councils having limited tools at their disposal, Government also have limited tools at their disposal to address some of these issues. I think place is a very important consideration in that. If we wanted to look at place properly, what are the freedoms and flexibilities that we might be able to offer places and the local bodies within those places to deliver outcomes for their residents? How might we then think about funding those differently?

At the moment, we have council tax and business rates as the two main sources of funding. This is a whole session in itself, but both those areas are ripe for reform. So place has a role, and within that, you have to think about accountability and responsibility. If we are going to allow places to have greater freedoms and greater flexibilities, we need to think about what guardrails we would put in place. We also need to learn some of the lessons from the recent past, where councils were given some freedoms and were encouraged to use them to do things that, with the benefit of hindsight, many of them should not have done. We need to think about what safeguards we would put in place. You have two options: you either put more money in or you reform, and the answer probably lies somewhere in the middle.

Q21 **Chair:** We understand that the spending review will be a small step—probably about a different funding formula—and there may then be a further review of local government finance afterwards. Councillor Marland and Professor Travers, what do you want to see in that further look at funding reform?

Councillor Pete Marland: A lot will fall on the Government's thinking around the fairer funding formula, and how that maps into the total quantum of spend on CSR. I do not have much more to add to what Iain said. The system is not currently sustainable, and it is a bit like flying a plane while it is on fire. The question, as with the NHS and all these things at the moment, is: how do you get to a better future while making sure that councils do not collapse before you get to that new point?

That is partly what exceptional financial support is meant to be, but it will fall somewhere between us needing a quantum of extra money and reform of the services. That reform must be not just in terms of policy. I think there are around 300 funding streams coming to local government. Some of them are ringfenced and some are not. For instance, Milton Keynes is the seventh biggest economy in the country. I charge 80p an hour for



parking in the city centre, because it is on-street parking and goes into an escrow account. I cannot spend it on anything other than transport-related issues, so it is completely ringfenced, but if you go just down the road to Oxford, they charge £20 a day. I am not saying anything about them, but that local choice is taken away from me, because, in my council, I have reached the point at which there is nothing extra transport-wise that I can spend the money on. That is bizarre. So we need the freedoms and flexibilities, but also reform of the system.

Q22 Chair: The last word goes to Tony Travers. Come on—write your own local government reform for us.

Professor Tony Travers: One of the challenges of major structural reform is that a fair amount of it, as we have said by implication, is about redistributing loads of deficits. Some councils have deficits on DSG and need financial support, while others have lots of money in their reserves. All of that is somehow going to get redistributed as part of a reorganisation, but in the longer term, the operation of council tax and business rates will clearly need to be addressed.

The difficulty, particularly with council tax, is that the longer you leave it unreformed, the more difficult that becomes. You could suddenly change the basis of council tax valuation—lots of people think that would be a good idea—but people have made decisions for over 30 years on the basis of the system as it is, so you would have to be careful not to bring elements of retrospection into the tax people then pay. That again means that the Government would have to spend money on underpinning—softening the blow—of any such reform.

Chair: On that happy note, I will give the last word to Sarah Hall with an important question.

Q23 Sarah Hall: Thank you, Chair. In my previous life, I was a cabinet member for children and young people, so I have a good grasp of some of the challenges in that sector. One of the biggest issues we faced was private providers and residential placement costs. I would be interested to hear your thoughts on this. One of the things that we tried to do is bring some of those services back in-house, but obviously invest-to-save projects like that are costly, take a bit of a leap of faith and take time. With the challenges that councils have in terms of firefighting day to day, that is not an option for many. What are your thoughts on that?

Iain Murray: It is a challenge. Other bits of the country are trying to answer this question. The Welsh Government have a piece of legislation basically removing the profit incentive from some of those services. That is a new piece of legislation and it will be interesting to see how that plays out. I think this is where strategic authorities and delivery authorities is an interesting idea. The delivery of the service still needs to sit at that local level close to the point of delivery and the point of need. If we are thinking about skills and how you shape markets, and those sorts of things, those would be much better done at a strategic level.



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I did not get my go on LGR, but if all we do is take the existing services and bundle them together into new unitary authorities, and we do not think about what might sit best at better levels, it will be a distraction and we will miss some of the opportunities that it presents. It is just about thinking about these things differently. Local government working with health would have a fantastic opportunity across a local area to shape some of those markets. They understand them really well and would be able to have quite a significant impact.

Q24 **Chair:** I think we will have to draw to a halt, unless you want to quickly come in, Pete.

Councillor Pete Marland: Children's social care, as you know, is a really difficult area. Unlike for adults, where you can basically do quite strategic and long-term demographic planning, with children's, a family could move into your area tomorrow, so in a week's time from then, you might have five children that you need to take into care, two of whom have special needs, and suddenly you have to spend £3 million extra a year. Many of us will probably have seen that situation.

On planning for that, you do not want to open your own children's home or facility but have nobody in it, so you need to spot purchase stuff. Getting the balance right between internal provision and spot purchasing is very difficult to plan. That is why a broader base for that strategic planning is very difficult, but again, I come back to outcomes. The tragedy of those high-cost places—many of them are unregulated—is that it has no basis at all in outcomes, so many of those children will have far worse outcomes than if they had maybe stayed with their families.

Sarah Hall: The solution surely is to take the profit out of the whole process.

Q25 **Chair:** Pete, thank you very much. The final word goes to Professor Tony Travers.

Professor Tony Travers: I think councils of all parties across the country are very good at managing a mixed economy of public and private provision. There are perfectly well-run refuse collection services in many parts of the country that are delivered by the private sector. The problem is the incentives, as has happened with care homes for older people and for children. The incentives in terms of ownership and the temptation of using the income stream as the main focus of interest rather than running services well, to put it delicately, is where the problem comes. Where we have services delivered by private providers, it is essential to know that the incentives for owners are correct. But you can have a mixed economy perfectly easily.

Chair: I thank all three of our witnesses—we could have probably spent another couple of hours with you. We have learned a lot. I know you are busy people, so we really do appreciate you being here. We are going to take a short break now. We will come back at 11 o'clock.

Examination of witnesses



Witnesses: Sarah Healey, Will Garton, Nico Heslop and Conrad Smewing.

Chair: We now move on to our main session. As we have just heard from the excellent first panel of witnesses, local government finance is in crisis. While real-terms funding for local authorities grew by 4% between 2015-16 and 2023-24, it has not been enough to keep pace with population growth, the enormous demand for services or the increasing complexity of need.

Since 2021, 42 local authorities have received exceptional financial support, and 30 received support to balance their 2025-26 budgets. That is only a short-term fix, as I have no doubt we will examine in a minute, and does not address the underlying financial pressures councils are facing. More and more councils are issuing section 114 notices, effectively declaring themselves bankrupt, so immediate action must be taken to address the financial health of local authorities to guarantee the delivery of the essential services that so much of our population relies on.

We will therefore be questioning Government officials on the drivers of financial distress for local authorities, how they plan to support financially failing local authorities and their plans for tackling systemic issues to address the crisis in local government financial sustainability. All that has to be delivered in the context of a crisis in local government audit and alongside the Government's plans to reorganise local government.

Today, to help us with all that, we are very pleased to welcome Sarah Healey, who has been permanent secretary at MHCLG since 2023. We also welcome Will Garton, another regular attender of this Committee, who took on the role of director general for local government growth and communities in March 2022. We have Nico Heslop, who became director of local government finance in June 2022—I think this is your first time before the Committee, so you are especially welcome. Thank you for coming. Finally, we have Conrad Smewing, another regular attender of this Committee, who has been director general of public spending at the Treasury since April 2023. All four of you are very welcome.

Clive Betts, my deputy, has a question at the top of the session about the building safety levy, which I think you have been warned about, Sarah.

Q26 Mr Betts: Given that the implementation of the building safety levy will be delayed until next year, will that impact on the pace of remediation of high-rise flats or blocks with flammable cladding and other safety problems, or will the Treasury have to find more money through the building safety fund if the building safety levy does not bring in money as early as had been assumed?

Sarah Healey: We have been really clear that delaying the implementation of the building safety levy will not slow down the pace of remediation. We continue to press ahead with remediation at as fast a pace as possible.

Q27 Mr Betts: What will the impact of delaying the levy be?



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Sarah Healey: You will remember that, in the hearing we had at the beginning of February about building safety and dangerous cladding, we discussed the global sum that will be spent. Some of that will be spent up front before the building safety levy is collected, but the taxpayer contribution remains capped at £5.1 billion.

Q28 **Mr Betts:** So the estimate is that the building safety levy, despite being delayed, will bring in the same amount of money as you initially forecast.

Sarah Healey: Correct.

Q29 **Mr Betts:** Okay. Before I go on to my main question, have you done an impact assessment of the impact the building safety levy will have on developers' ability to fund affordable housing through 106 contributions? There is a certain amount of profit made on individual building sites, and if some of that goes into the building safety levy, it is not available for 106 funding, is it?

Sarah Healey: As we discussed extensively during the hearing in February on dangerous cladding, a whole range of issues affect how much affordable housing is built. Developers will take all those issues into account when pressing ahead and making their plans. There are lots of moving parts. You will have seen that only last week we announced an extra £2 billion for the affordable homes programme as a bridge forward. We continue to believe there are a number of issues that have an impact on the number of affordable homes that developers can build.

Q30 **Mr Betts:** That is an interesting general answer to a very specific question. The reality is that, of all the various moving parts affecting the number of affordable houses, the building safety levy is now one, isn't it?

Sarah Healey: It has been the whole way through. Equally, other decisions have been taken that push in a different direction.

Q31 **Mr Betts:** It is helpful to know. Has any precise impact assessment been done?

Sarah Healey: I do not believe specifically on the question that you asked. Ultimately, we take a range of decisions. It is a dynamic situation, as we explained at the hearing at the time.

Q32 **Mr Betts:** But that does not stop impact assessments being done, does it?

Sarah Healey: No.

Q33 **Mr Betts:** Can I move on to the issue that is particularly before us today. Does the state of local government finance give you sleepless nights?

Sarah Healey: Obviously, we think there are very serious pressures in local government. We are extremely concerned about the financial state of local government and very worried about the situation that some councils find themselves in. You will have seen our Ministers have been absolutely plain that action needs to be taken to address some of the systemic problems that local government has been experiencing in recent years. There are obviously some areas of the country that have been particularly

struggling and some councils that have not been able to balance their budgets in recent times. That number has been going up. All those issues, as well as the overall position of the sector, give us concern.

Q34 **Mr Betts:** Sleepless nights?

Sarah Healey: I try not to have sleepless nights. I feel that if I am well slept, I am probably better placed to deal with the sort of challenges we have to deal with on a day-to-day basis.

Q35 **Mr Betts:** I am sure in due course we will go into some of the reasons why the situation is as bad as it, and what might be done to put it right in the short and longer term, but one of the problems you surely have is that you cannot actually know how bad the situation is because so many authorities do not have audited accounts.

Sarah Healey: As you discussed with Will and Conrad at the hearing on the whole of Government accounts, we take the gaps in local audit extremely seriously. We have a programme in place to address them and to try to bring them up to date. At the same time, audit is one among a range of tools that we use to understand the financial position of local government. I think those were all listed out as part of the discussion at that hearing. I could go through them again. We think they give us a pretty sound understanding of the position of local government. It is obviously not good enough, and we would prefer to have audited accounts.

Equally, audited accounts are inevitably a little bit retrospective and we like to keep track of data on an ongoing, up-to-date basis. It is absolutely the case that audit is important to this and that having up-to-date audited accounts for the whole of local government is critical. Equally, we think we have a pretty solid understanding of the financial situation of the sector and indeed of individual councils. No council individually has come to us with an issue of financial distress that has been a surprise to us.

Q36 **Mr Betts:** Right, so you may have been surprised in the past on occasion, but you will not be surprised in the future?

Sarah Healey: No, we have not been surprised.

Will Garton: No. On cases to date, we have known about an issue in a local authority before they have come to us. As we talked about in January, we think we have a good grip of the size of the extensive problems that exist in the sector, despite the unacceptable state of the audit market. That goes into the financial sustainability tools, and we have worked with the NAO to show those. I do not want to put words in the NAO's mouth, but it has been relatively complimentary about our ability to do it. We take insight from auditors' public interest and value for money reports and we do a ton of soft engagement.

Q37 **Mr Betts:** You are aware of what is happening with individual councils, and therefore do not expect any 114 notices to be served in the next few months.



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Will Garton: We are not making a prediction going forward on the health of particular authorities. We are saying: why are we confident that we have a good understanding about the financial risk and complexity in this sector? Because, retrospectively, all the authorities that we have dealt with both in terms of EFS and 114 have not been a surprise to us. We are not making a forecast going forward; we are looking at our past record.

Q38 **Mr Betts:** Surely the whole point of having the information is that you can make forecasts and anticipate what is going to happen, isn't it?

Will Garton: As a result of that, we know who we are worried about going forward as well—absolutely.

Q39 **Mr Betts:** So you do have worries about some authorities.

Will Garton: Yes.

Sarah Healey: Inevitably.

Mr Betts: Might they have to issue a section 114?

Nico Heslop: To clarify, local authorities issue 114s, and that is a decision for the local authority. They also issue section 114s for a range of reasons. As Will and Sarah were saying, we think we have a very good understanding of local authorities that are having financial difficulties. We could not at all predict that a local authority may come out and say that it has discovered an historic issue with its accounting treatment of something and is therefore issuing a section 114. There is a distinction between our understanding of every local authority and account and our understanding of the general pressures on local authorities.

Q40 **Chair:** Let's knock this on the head—we have so much to cover this morning. Local auditing is important not only for you in the centre, but for council officers, councillors and members of the public who want to understand what may be going wrong in their council, so it is important that we start to make inroads on this. Can you update us on your discussions about the local auditing office proposals?

Will Garton: You will recall that in January we discussed the backstop, which for the year '22-23 was in February. If you will recall, we said that we wanted to see audited accounts—they may be impaired or disclaimed, but we want audited accounts. We now have returns from about 94% of the sector. There is still 6% missing, and we are chasing that down relentlessly, but that is a better position than we were in previously. That is for the year '22-23.

Our intention is to introduce primary legislation in the English devolution Bill to set up the local audit office, and instructions are being given to the OPC as we speak to get that right. That is a change in policy from the previous Administration, and that follows the recommendations of this Committee, the departmental Select Committee, Redmond and Kingman—all those bodies. That is happening. Our objective remains that by the end of the financial year '27-28 there will be no disclaimed or qualified accounts because of audit per se.



Chair: That is a really helpful answer.

Q41 **Michael Payne:** I have a question for Nico, if I may. I think I am right in saying that, if you take just the year '23-24, revenue spend for local government across the board was £72.8 billion. How do you ensure value for money? There are still significant challenges for councils across the country: the numbers of looked-after children are going up, and there are pressures in adult social care and children's services. This is a significant amount of taxpayers' money. How does your Department ensure that the support that you give local government provides value for money?

Nico Heslop: There is a long-standing accountability mechanism between central Government and local government. Sarah is the accounting officer for local government spend overall, but within that framework there are the local authorities, the chief executives and the statutory positions: the section 151 officer and the monitoring officer—the head of legal in local authorities. They are responsible for individual decisions taken on projects and on spend. That is a long-standing arrangement for how we interact with local government.

Q42 **Michael Payne:** Are you satisfied that the Department is getting value for money in the spend that it is making across local government?

Nico Heslop: We would always look to see whether we can achieve greater efficiency and productivity, and at whether reforms to services could be undertaken to improve the efficiency and value of money of things. In the local government finance settlement for this year, we set out a number of changes, including increased investment in prevention spend on children's social care and homelessness. That is absolutely about trying to improve the efficiency and effectiveness of spend in those areas. I am sure that that will be a feature of the spending review discussions over the coming months.

Q43 **Michael Payne:** On the revenue streams available to local councils, 2013-14 was the last time that the indices for the funding formula were properly reviewed; 1991-92 was the last time there was a revaluation in terms of council tax. Business rates reform is long overdue and has been called for by the sector for an awfully long time, yet still has not been delivered. Do you think there is significant flexibility in terms of the revenue streams that councils have in relation to council tax, in relation to business rates and in relation to the other revenue streams that they have in order to deliver on some of the immense challenges that, as we heard from the pre-panel, the sector still faces?

Sarah Healey: In December, the Government set out a consultation on the funding formula, which ran for two months and closed in February. It set out the proposed set of approaches on the range of issues that you highlight there, all of which are very familiar to us, and which we recognise are very much in need of reform. First, there is the distribution of funding, and trying to make the distribution of funding much more closely aligned to needs and demand and changes in demographics, in levels of deprivation, and in the need for services. Also, there is the value for money that we think we could get out of greater funding



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simplification—removing the individual stream of grants that local government has to receive and report on, whether it is ringfenced or otherwise, to give them greater flexibility to meet need where it is most felt, and where it is best understood, closer to the citizen.

Multi-year settlements are a crucial part of trying to achieve greater efficiency in local government, because obviously, as the NAO Report makes clear, and as this Committee has said before, single-year settlements make it very difficult to plan for reform of services in order to obtain greater value for money. You will obviously also be aware that the range of issues where local government is really feeling extreme demand pressures at the moment—children’s social care, special educational needs and disability, homelessness and adult social care—are all areas where Government is looking very carefully at what reforms can be introduced to improve the quality of services and manage some of those demand pressures on local government.

Q44 Michael Payne: Do you think, Sarah, that the sector can expect by the time of the spending review, or at least the next provisional local government finance settlement, a complete overhaul of those indices of the funding formula that have not been reviewed since 2013-14? I will just speak from the viewpoint of my own local authority, Gedling, and your baseline figure, which is used in the NAO Report of 2015-16. You talk about the global uplift in core spending every year. My own local authority is in a negative core spending position compared with 2015-16, if you take that as a baseline position; and that position from my own local authority, Gedling, will not change unless and until there is a complete overhaul of that indices funding formula, which has not been reviewed since 2013-14. I think colleagues in the sector are really keen to hear from you when they will see that overhaul—

Sarah Healey: You have seen the consultations. You know exactly what we are looking at working through and doing for the next local government finance settlement. It is worth highlighting that obviously there will be some transitional and implementation arrangements. We are not going to be switching to a completely new approach overnight. You would not expect us to; that would be too much variation in funding for the councils to receive and deal with overnight. So, we will set out some transitional arrangements when we set out exactly what changes we expect to happen to the distribution of funding.

Q45 Michael Payne: But it is unlikely that we will see a complete overhaul of those indices of the funding formula by—

Sarah Healey: No, that is what we have consulted on.

Nico Heslop: We have consulted on the principles around that, absolutely. We will put out another consultation after the spending review—most likely June time—and I think that will set out further detail and will give local authorities a good indication of where they may end up through the system. As Sarah said, we will also need to set out details on transitional protections, but the consultation responses have been

overwhelmingly supportive of updating all the things—and yes, many have not been updated since 2014; some go as far back as the 1990s. I think everyone is agreed that updating them is really important.

Q46 Chair: Conrad Smewing, can I pick up on one thing that the permanent secretary said? There is this multiplicity of funding streams. Education and health are not represented in the room. It sounds, from what the permanent secretary said, as though MHCLG itself is making progress on reducing those funding streams. Can you, in the Treasury, assure us that it is top of your priorities, in terms of local government funding, that you will be reducing the number of these streams?

Conrad Smewing: I can absolutely give that assurance. The Treasury is four-square behind the whole local government finance reform approach that MHCLG is taking and, where there are areas where we can be particularly helpful—consolidation of grants is one of those—we are absolutely putting that front and centre of the spending review.

Sarah Healey: When I talked about reducing the number of grants, I did not mean just MHCLG grants; I absolutely meant across Government. I know that the NAO Report makes a point about the extent to which MHCLG has decision-making power over what the rest of Government does. We may not have a veto as such, but we do have extremely good relationships with the Departments that are also the main funders of local government and work very closely with the Treasury. The need to reduce the number of funding streams to local government to best get the value for money that we need is very well understood among my fellow permanent secretaries.

Chair: That and your other statements about multi-year settlements will make the administration of local authorities much easier.

Sarah Healey: Yes.

Q47 Mr Betts: Let me ask you about the national insurance increases for employers. Local government, where it employs people directly, has been protected, but a lot of local government services are provided by organisations that are impacted by those changes. To what extent has analysis been done, either by the Department or by the Treasury, on the impact of those changes? Has local government been given money to help smaller charities in particular, which have been put under additional financial pressure because of those increases?

Conrad Smewing: I will pick up the overall position, and then Nico might want to say something about local government in particular.

The approach that the Treasury took for compensating public authorities for the national insurance contribution rise was essentially to take the macro figure, from the Office for Budget Responsibility, of the expected amount from national insurance contributions increasing for public sector authorities and then divide that between the different workforces that are classified within the public sector. That obviously means that the national insurance rise has an impact on private sector companies. That is the



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purpose of the tax policy change: you need to get the tax in, to fund the increase in public spending that the autumn Budget put through.

The OBR's assessment of what happens to that tax burden is that it is split between wages and profits, so there is an impact both on employees of those private companies and on the profit of those companies. How that is divided up is very difficult to see from a macro level. The approach is that, to the extent that that tax burden on a private sector organisation results in changes in the prices that it charges the public sector, that would be taken into account in the overall funding for that sector over a period of time; it would take some years to come through. These kinds of edge case exist in a large number of public services, in health and in local government.

That was the overall approach we took. Nico, do you want to say something about local government in particular?

Nico Heslop: Specifically on local government, the approach that Conrad set out gave us a figure of £515 million for the direct costs. We then took a decision about how to allocate that funding. We talked to the sector and we decided to allocate it in a certain way, so that we did not discriminate against authorities that had chosen to insource or outsource various services. There was a technical question about what line we chose to do that with, but we adjusted our approach based on feedback and consultation with the sector.

Q48 Mr Betts: What impact assessment has been done on the ability of local authorities simply to fund existing services out of that extra money to cover the costs of national insurance? I have been along to see two organisations in my constituency: Women's Aid, which runs a provision for women fleeing domestic violence, and Care in the Community, which looks after people with long-term disabilities in a lovely setting on Beighton Road in my constituency. Both organisations have the pressures of the national insurance increase and the wage increases, which they welcome, but they get no help. Those organisations will just about survive this year. They can manage, I think, but the issue just rolls through to next year. They are going to be looking at cuts to really basic essential services.

Nico Heslop: I absolutely understand the pressures that some of those organisations are facing. We might get into this later, but at every spending review we look in the round at local authority spending and need, and the changes to national insurance were factored into that assessment. Through the autumn statement and the LGFS, we put in an additional £5 billion in grant funding. We put in an extra £880 million of funding to support adult social care. In total, we made available an additional £3.7 billion to social care.

Q49 Mr Betts: Sorry—the name of the company is actually Community Integrated Care. Are you saying that there is enough money going into the system for Sheffield council and other councils to fully compensate organisations like that, which deliver an important local service, for the extra costs of the national insurance increase?



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Nico Heslop: I cannot speak to the specifics of Sheffield and the link between that. As a general principle, we looked at all the funding pressures for local government in the round and provided a significant uplift in funding.

Q50 **Mr Betts:** So you are saying that there is enough money going into the system for all these organisations to be compensated by councils throughout the country.

Sarah Healey: What we are saying is that we did the best estimate that we could, considering the information that we had. What individual councils decide to do and how they decide to address it is not something that we can control or comment on.

Q51 **Mr Betts:** Okay, but we are not getting the impression that the money really has gone into the system to compensate for all these extra costs.

Sarah Healey: We have put quite a lot of extra money into the system. Some of that money was available because of increased tax take. Again, it is one of those situations where there are lots of moving parts when settlements are made.

Q52 **Anna Dixon:** Before we move on, I want to pick up where my colleague Clive Betts finished, looking at the adult social care sector in particular.

In 2021, the NAO published a Report on the adult social care market in England. Even back then, with data going back to 2019, it found that a significant number of large providers were not financially resilient. At the time, there was a suggestion that we needed to put clear and comparable information in place about fee levels to get a grip on how much was being paid to social care providers.

Here we are in 2025, and we have evidence from Mencap—I also know this from speaking to other not-for-profit charitable providers of both health and social care in my local area, across the Bradford district—that providers will be forced to renegotiate and potentially hand back social care contracts. Bradford district has taken the decision to fully fund the national insurance increase with social care providers, but some councils are not doing that.

You may say that it is entirely down to local councils, but is there nothing more that MHCLG, together with DHSC or indeed the CQC, could do to ensure that the money reaches social care providers and to put in place plans, where social care providers will be handing back contracts, to mitigate the gaps that might emerge in provision for older and disabled people?

Nico Heslop: As Sarah said, we work incredibly closely with the Department of Health and Social Care. It has done a lot of work to try to improve the transparency of markets. We have a specific funding stream within the local government funding settlement: the market sustainability and fair cost of care fund, which, while giving a degree of discretion to local authorities, is about tackling some of the things that you have suggested. That was worth £1 billion in 2025-26. I know that the



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Department of Health and Social Care is continuing to think about whether other things are needed in that space.

As you say, some authorities have done it and some authorities have not done it. I do not think that is us stepping back from the issue; to go back to the original question about the accountability system, that is just how the accountability system works between central and local government.

Q53 Anna Dixon: Are there no ways in which you can give a guide as to what the intention was behind this exceptional funding and other things?

Will Garton: We talked earlier in the hearing about the need for fewer ringfences and more integration into local authority budgets. The Chair described it as a crisis in his opening comments; I think the Deputy Prime Minister has used that word as well. Our position is that this is the least worst thing you can do.

I accept that there is just not enough money in the system. We are having to wait until the reforms come through. We need more money, and we need to use the money in the system more efficiently, but we cannot be in the position of saying to an individual local authority, "You should use your funding in this way," while saying to a different local authority, "You should use it in that way," because we do not have an adequate view. We want that decision to be made locally.

That is not hiding from the fact that it is incredibly tough out there and it is difficult, but there is a big risk to us mandating, from the centre, whether or not it should go through to a care provider. We want local authorities to make those decisions, because they are best placed to do so.

Q54 Chair: My colleague Anna Dixon has usefully taken us to the Mencap evidence, which notes, "The Health Foundation estimated that social care spending per person in 2024/25, when age-adjusted for the population, would be around 5% lower in real terms than in 2009/10."

It is all very well saying that local authorities should make the decisions on these matters. That might be true if one service were under pressure, but when every service is under pressure and when local authorities are having to make invidious choices on every single service, it is a very difficult position for them to be in. The core of my question is this: can you tell us anything at the moment about your likely reforms and how the situation is likely to be put right?

Sarah Healey: I suppose I slightly take issue with one thing you have said in your question, which is that we should not take so much of an interest in how people are spending their money if everything is under pressure. I think that that is precisely the point at which we should try to be moving, as our reforms have set out, to more flexibility for local government to decide how funding should be spent.

On your point about what is available in terms of social care need and pressure versus the level of funding, I cannot comment on the specifics of the number, because I do not have any of that analysis in front of me. But



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it would not be surprising, because, precisely as our consultation on funding reform and distribution sets out, the level of assessment of need has got very out of kilter with where that need is in the demographic and other changes that have happened since those formulas were set. That is precisely why we set out a consultation that takes into account a whole range of different things—demographics, deprivation, levels of population, age of population—and therefore makes the best possible assessment of need as we look at the formulas that inform the local government finance settlement. Nico, do you want to say anything else about this piece of work?

Nico Heslop: Exactly that, but also that within that change we are specifically looking at updating formulas for children's social care and for adult social care, for exactly the reasons that Sarah says.

Q55 **Anna Dixon:** Can I press you a bit further? We heard from Professor Travers in the pre-panel that so much of the demand that local authorities are having to meet is effectively a result of national decisions and national policy setting. Whether that is in SEND, temporary accommodation for homelessness, adult social care or children's social care, clearly whether local authorities can meet demand or not is also partly driven by the action that you and other Departments are taking on those issues.

Demand in every one of these areas is going up, and complexity is going up. There is plenty of data: as evidence submitted to this Committee by the Homecare Association notes, "Age UK says 2 million older people have unmet care needs, and Healthwatch report unmet needs for a further 1.5 million working-age adults." How are you working to support local authorities to take action nationally and locally to curb demand and pressure?

Sarah Healey: I go back to what I set out earlier about the main drivers of demand. I completely recognise the picture that you are setting out: in all these areas, the demand levels are going up, even in councils that are in relatively good financial positions. That is why we are now in a position where we are seeing serious financial problems in councils—not because of serious mismanagement, as we have seen in the past, but simply because of the pressures that they are under. I would absolutely love to be able to tell you the specifics of what the reform plans are in each of those areas, but what I can tell you is that in all of them there is very significant work under way within the Government on what those reforms are going to look like.

This Committee has taken evidence from the Department for Education on special educational needs and disabilities and the reforms that are needed. I know that you have highlighted the need for a clear plan to manage demand on that, for two reasons; all these cases are about improving outcomes as well as dealing with the local government's financial position. As Nico said, we have put extra money in and moved money towards prevention to try to address some of the demand pressures on children's social care. The Department for Education is highly conscious of the issues and pressures that have arisen as a result of failures in the market.



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As we set out to you in the hearing at the beginning of December, we will be producing a strategy on homelessness that looks at how we can address some of the pressures after the spending review, but anyway we are taking action when it comes to affordable and social housing. The £2 billion that I mentioned earlier is all about making a long-term difference to the availability of housing in order to manage those pressures.

We are also looking at how we can increase prevention expenditure in the short term to try to address some of the temporary accommodation issues that have arisen in a lot of councils. Obviously, the demand has hugely increased just in the time I have been the permanent secretary at MHCLG, and we have been very conscious of that. The Casey review is also under way, looking at adult social care.

I realise that none of that says, "Here is our clear set of reform plans in each of those areas," but I hope it is clear from my answer that we recognise the demand pressures that come from each of those main policy areas. Action is being taken in the relevant Government Departments, which is sometimes us and sometimes others, to try to manage those down by reform of the services.

Q56 Anna Dixon: Local authority leaders would probably be pleased to hear that plans are being put in place for strategies on all those demand areas, and about the reforms you mentioned earlier on local government financing. But there are councils, like Bradford council, that are already in exceptional financing because half their budget from the central Government grant has been cut over the last 10 years and because of the inability, in such a poor area, to raise revenues through business rates and council tax to make up for those cuts. They have had to spend down reserves and sell off assets, and they will owe money because of the exceptional finance that they have been provided with. I cannot see how they will get from here to there, or how they will have any bandwidth while they wait for new settlements, transition funding and the wonderful joined-up cross-departmental strategies on all these areas.

What is your message? How are councils in that position supposed to bridge the gap and continue to meet even their statutory needs in terms of social care and temporary accommodation? They are between a rock and a hard place, so the Treasury and you—

Sarah Healey: I completely understand the picture that you are setting out. That is the picture that has driven the need for these fundamental reforms. We all wish we had not been in a position where we had a one-year settlement last year. That was not an ideal situation, but we did what we could within that one-year settlement to try to address some of these problems. Nico, you look keen to say more.

Nico Heslop: As you know, Bradford has been in receipt of exceptional financial support for the last two years. We have worked incredibly closely with Bradford, in a very collaborative way, absolutely recognising the picture that you have set out.

As Sarah said, in a one-year settlement we did as much as we possibly could. Ministers took some difficult decisions. Specifically for Bradford, it led to a 9% cash-terms increase. You got £17 million from the new recovery grant that we introduced, which is specifically targeted at need and deprivation. From first-hand experience of speaking to the council and the children's trust, I know that the big thing that Bradford is trying to do is reform its children's services. I suspect that the longer-term plan on children's service reform will happen, and that is the way out of it.

I totally recognise the picture, and I listened to some of the evidence earlier, particularly what Iain Murray was saying about exceptional financial support. Exceptional financial support is part of a toolkit. On its own, no one here is pretending that it is a solution, which is why we have set out the plan.

I reiterate what Sarah said: that post the spending review and ahead of the financial settlement for 2026-27, which will be the first multi-year settlement in a decade, we will be able to set out a lot more information and give a lot more certainty to authorities on funding reform and the significant consolidation of funding, and in each of those major service areas that you have set out and that the NAO has set out in its Report.

Anna Dixon: I welcome that we are at the beginning, and I pay tribute to the chief executive, the council leader and the head of children's services for the progress they are making in extremely difficult circumstances to turn this around. It is really important to recognise that, while in some councils there is a history of financial mismanagement and some bad decisions that got them there, there are other councils that in face of very high need and very significant cuts to funding have been having to make some very difficult decisions. I will leave it there for the moment.

Q57 **Chair:** Permanent secretary, as I said in one of our previous hearings, I do accept that there is usually a reason for a 114 notice. You have had seven of those, and it always results in less and more expensive services. Look at what is happening in Birmingham at the moment. Section 114 is always a disaster. Even exceptional financial support is a disaster, because it means that those councils are either selling off capital assets or they are borrowing more. This is not, as you were saying, Mr Heslop, a solution. It is a disaster.

We really do need to tailor demand in all these services, and fund it properly. You have all these reviews going on, but how long is it going to take? What is happening now is that people on the ground are suffering, as Clive said about his constituency. They are getting less and less services each year.

Sarah Healey: I really recognise that. Obviously, when you are reforming something as fundamental as the special educational needs and disabilities system that so many vulnerable children and parents rely on, it is really important that you get it right. Clearly, the reforms that were done in 2014 have led to a very significant expansion in demand, but if you asked parents or children, I do not think they would say that that has been matched by the quality and service in that system. It is important we get



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this right. We have an opportunity to do that alongside funding reform, and we should get that right in all the areas I have talked about in terms of demand.

On our funding reforms, we have already started seeing some changes in the way that we did the settlement last year but, as I say, it was unfortunately only a one-year settlement. We will see very much more significant change, as Nico set out, when we come to the first multi-year settlement for a decade. I don't think any of us—Will might want to come in here—think that exceptional financial support is a long-term strategy to deal with local government funding. It is a short-term intervention to handle the situation that we are in until we can make those more fundamental changes.

Will Garton: I agree with your analysis that we cannot rely on exceptional financial support; otherwise it is not exceptional but becomes the norm and we become acclimatised to it. We are now in the early days of 2025-26, and we are starting to do things. I know it can feel like this is all taking a long time, but from 2025-26, the new children's social care formula will better distribute the money that we have according to need. There is a Bill in Parliament—the Children's Wellbeing and Schools Bill—that gives the Department for Education the option in extreme circumstances to cap the profits made by providers of children's services. Following the MacAlister review, in children's services we are already reallocating money from the acute end to prevention.

That is happening, but, as Sarah articulated, the reforms that we are undertaking are so significant and have not been done for such a long time—since 2013-14, as the NAO Report sets out—that to do them overnight would lead to huge losses in one part of the system and massive gains in other parts, and that in itself would make the system unsustainable. It cannot be done overnight. We are going as quickly as possible, because we recognise the really difficult financial situation that you are articulating, but our intention is that, as a result of the reforms and as a result of the spending review, the whole sector is much more sustainable towards the middle part of this Parliament than it is currently. It has started. It just takes time.

Chair: All right. Thank you for that, Will.

Q58 **Oliver Ryan:** Mr Heslop and Ms Healey, I want to talk about service quality, accessibility and democracy, and what that means. Of the £72.8 billion of revenue spent by councils this year, £42.3 billion was spent on adult and children's services. As a median figure across councils, 77% is spent on statutory services at the statutory amount that has to be delivered. Rising demand is not going away. Temporary accommodation costs have risen 54% in the last few years. London spends something like £4 million a day on temporary accommodation. EHC plans are up 140% since 2015. Rates of children and adults in need are up roughly 30% since 2018. The average cost for each looked-after child stands at £97,000, with some multi-thousand-pound placements demanded in some cases. Fostering costs are up. By 2027, SEND deficits will be £7 billion or £8



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billion each year. All in, as we heard from Councillor Pete Marland earlier, there is a £7 billion or £8 billion gap in the whole sector this year, in-year, and local government spending is lower today than it was in 2010. In the context of that, complaints and wait times are up and accessibility for residents is down.

The practical collapse of the effectiveness and delivery of local government services is the result of 14 or 15 years of restricted finance, but there are several other causes. I think this undermines our democratic system and people's confidence in government, because councils cannot do the basics, but they also cannot do the big strategic things that the new Government requires them to do.

Chair: Can we pause there? Otherwise the witnesses will not be able to answer it all.

Oliver Ryan: I am coming to a question.

Chair: There is a lot of context.

Oliver Ryan: There is a lot of context, but it is building to a point. I put to the witnesses, that as much as we are looking at reform of things such as finance and reorganisation, what we probably need is big change. As set up, the system across England and Wales at least is not fit for purpose. Services for adults and children probably need to be separated out. The whole system is falling over because of service quality, accessibility and democracy. We do not need bitty reform; we need to just start again, don't we?

Sarah Healey: I will say a few things in response to the very many things that you covered in your question. The first would be that a decision about whether we need fundamental and major system reform is for politicians to make, not for us. You could ask that question of our Ministers, and I am sure they would have something to say about why they have decided to take the approach that they have. We think we are embarking on very big, fundamental reform of the system in a consistent and co-ordinated manner that we have thought about carefully. If you want me to redesign the entire care system, that is not for me to do, but if you are asking whether this needs fundamental, big, consistent and careful reform in all areas of its operation, that is what we think we are doing.

Nico Heslop: Sarah is exactly right, but our Ministers have been very clear that the plan we have set out and the three-year spending review, as Will said, is about bringing much greater stability to the sector. If we embarked on some of those massive ideas from where we are now, you would probably be telling us that we are ripping it up and it is all too risky. The first step must be measures to address the pressures set out in the NAO Report—I would not describe them as bitty reforms—such as funding reforms, local government reorganisation, children's social care, homelessness, potentially things on SEND. By the end of this spending review period, we will be in a different place, and then then there will be questions about whether Ministers want to go further.



Q59 Oliver Ryan: Do we just accept that, because of local funding decisions that have been taken, service quality and accessibility will fall?

Sarah Healey: Our reforms are all about saying no to precisely that. Are there ways to make these systems better and ensure that funding better meets need? The amount of money spent on SEND has gone up, but are parents and children are more satisfied with the system? No. The reforms are all about changing that.

Nico Heslop: It is the same in children's social care. We are spending less on prevention, we are seeing more children entering the care system, the number of children entering foster care has gone down and the amount of funding invested in early support has gone down. Those things are exactly what the reforms that we have begun are trying to change.

Q60 Oliver Ryan: We do a few of these hearings, and we have people in from different Departments. I am cautious of the idea that there is always some reform or measure over the hill that will save us, but for the time being, the system does not work. It feels like we are accepting that for the time being it does not work, but if we can just reach that hill, it will be fine. That does not cut it for my constituents.

Sarah Healey: To go back to Will's point, we have started making changes. The Chair described it as a crisis, and the system has been experiencing increasing difficulties over many years. It is not going to be fixed in the course of a few months.

Will Garton: You do not need me to tell you this, but this is all happening in an incredibly difficult fiscal context for obvious international reasons. Money is tight and times are difficult. We would love largesse and being able to spend our way out of it. That is not an option open to us for obvious macroeconomic reasons, so we have to look at how we use the £69 billion settlement better, more efficiently and more productively.

We have huge reform on the mayoral agenda, for example. We announced only eight weeks ago that by next May 8.5 million people who did not previously have a mayor will get one. There is an economic development aspect to this: we are trying to integrate services at the local level by making the mayor, the police and crime commissioner and the chair of the integrated care board link up with probation services, coterminous with local authorities. We will have fewer local authorities through local government reorganisation. We are trying to shift money away to prevention.

From where we sit, it does feel bold and radical and a big transformation, but I totally accept that if you are a citizen, life still feels squeezed and difficult. It is not within our gift to change that immediately; we just cannot fix everything, try as we might, because the challenges are really hard. However, I think it is fair to say that we are running at it at a fair pace.

Q61 Chair: Will, you have just set out a list of the Government's aspirations for local government reform. Is the idea that it will save money, or improve



services, or both?

Will Garton: I think we can make the sector more productive through more place-based thinking. We will see what is allocated to local government at the spending review, but clearly there will not be excessive extra funding. What the Chancellor wants to allocate to the individual sectors is a matter for her, but there are a number of pressures. Our reform program can lead to more productive and better value-for-money outcomes for citizens.

Q62 **Chair:** Tony Travers made it quite clear that it is not going to save money in the short term.

Sarah Healey: Which particular aspect?

Chair: This local government reform and all these wonderful new things we are going to get—new mayors, new and larger combined authorities and so on and so forth.

Sarah Healey: If you are talking about reorganisation specifically—

Chair: Yes.

Will Garton: There can be an up-front cost to reorganisation, but you do start to save money quite quickly. That is the evidence we have from the reorganisations that happened at the beginning of the 2010s. Ernst & Young did a report in 2016 that said Wiltshire was saving £18 million a year, Cornwall £17 million a year, Durham £22 million a year and Shropshire £20 million a year, and PwC did a report saying that you could save £2.9 billion over five years. I do not think anyone would say that savings cannot be made by having a single layer of local government, rather than two,. Sometimes there is an invest to save case, but we are in this for the medium and long term.

Chair: Others will come back on this, but let us just move on to Michael and a question on homelessness.

Q63 **Michael Payne:** I think you would accept, as people who work in local government, that a good state relies on having good local government, but anybody walking around their local community sees that their leisure centres have closed in recent years and that the roads they drive on are full of potholes. They see the additional litter and they walk along high streets with high numbers of vacant shops. They would say that local government is not in a great state at the moment, notwithstanding some of the brilliant work that local council staff do every single day.

The Government obviously have some very clear objectives around housing and economic growth—the missions that have been set out by the Prime Minister and by Government—but for me there is a question about how local government can contribute to those key objectives if it continues to face immense financial challenges. Let me pick up on one particular instance, focusing on the Government's mission around housing and specifically talking about local government.

Spending on immediate homelessness services increased in real terms by

105%—from £1.49 billion to £3.06 billion—between 2015-16 and 2023-24, although most of that increase was spent on temporary accommodation. Over the exact same period, spending on other housing services, including most of the preventive services, fell by £642 million. As I think Tony Travers said, at the moment it feels like we are putting money into the cure or treatment, in the way that we have historically been doing in the NHS, but not into prevention and tackling the problem before it emerges in society.

As people from the MHCLG and the Treasury who work with local government every day and also work across Government, can you tell me how local government can play its role—a leading role—in delivering these critical missions if it is under immense financial pressure and if we are shovelling money towards cure rather than prevention in the way that is evidenced in the figures?

Sarah Healey: That is an issue that we really recognise and appreciate. Indeed, one of my previous answers about giving greater flexibility in the use of grants was precisely about local government being able to identify the best way of stemming demand through better joined-up services at an earlier stage. That is something we would like to see more of in future.

When it comes to homelessness specifically, as we have discussed in this hearing already, we know that the pressures, particularly on temporary accommodation, are really serious. I appeared in front of the Committee in early December specifically to talk about homelessness and some of those pressures. It is the case that, as a result of the numbers in temporary accommodation and the requirement to provide temporary accommodation, councils' expenditure has gone up and more of the homelessness prevention grant is being spent on temporary accommodation than on preventive services. That is something that we would like to see change.

We have increased the amount going into the homelessness prevention grant. Alongside that we have specifically taken an approach that in the rest of this hearing I have described as being something that we try to avoid, which is to ringfence a proportion of that for preventive spend. That is precisely to try to shift this so that there is some management of demand, because the pressures have been so great and the outcomes for citizens of being in temporary accommodation are not good. That is not a good situation, and not one that we want to see, particularly for families and children. Since I first started looking at this really closely, we have gone from 146,000 children in temporary accommodation to over 160,000, which is a huge increase by itself in a very short space of time.

You were absolutely right to highlight the need for greater preventive spend. We are also keen to improve the consistency of the effect of that preventive spend across local areas. Obviously, some councils will do this—predict their temporary accommodation pipeline and intervene earlier—better than others. We are keen to support learning between local government areas.



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Separately on homelessness, it is not straightforward, but one intervention that has been well received by councils—we got really good feedback—is the local authority housing fund. That enables us to bring properties back into use for temporary accommodation or social rent in order to address some of the pressures. In the long term, this is a supply issue. Crisis is the word that our Ministers have used with regard to housing, as well as local government. There is a crisis in housing supply, and the Deputy Prime Minister and the Housing and Planning Minister have been absolutely clear that they want a significant proportion of the 1.5 million homes to be social and affordable housing, precisely because of the issues that you have articulated.

Q64 Michael Payne: Thank you, Sarah. That is very helpful. Conrad, is there recognition in the Treasury of the crucial role that local government plays in delivering Government's missions? I declared an interest at the start of today's session as somebody who spent 14 years as a county councillor and was a deputy leader responsible for finances. It seems to me that under successive Governments, every time we come round to a spending review, and notwithstanding the good work of Ministers and officials at MHCLG, the Department is at the bottom of the pile, and that other Departments are seen as more important; the NHS or policing come first. Given what has been said by Sarah and her colleagues, does the Treasury recognise that in this spending review, if the Government are to meet the critical five missions that the Prime Minister set out, these good colleagues here from MHCLG must get the requisite funding from the Treasury to deliver?

Conrad Smewing: I think there absolutely is a recognition, both of the extremely difficult financial situation in local government and of local government's importance to the whole range of the Government's missions, whether those be housing, economic growth, health, or all of those. I would make a couple of points on this. First, it is notable that the priority reforms we set out in the first phase of the spending review—what we wanted the second phase to focus on—cover all four of the main drivers of the financial situation in local government: SEND, children's social care, adult social care and homelessness. They also cover the broader local government finance reform that we are talking about, and indeed the bigger reform to the overall spending framework that we have made. That move back to multi-year settlements, to allow planning over a longer period, is also there to support what I think everybody recognises has got to be a longer term shift from downstream to upstream, into prevention. This takes time and you do it gradually. That is not just in local government; it is also the picture that you are looking at in health.

Lastly, spending is an important part of this, but it is by no means the only important part in a place where local government plays a huge role. One important thing is the planning reforms that MHCLG have been putting through. In the spring statement a week or two ago, the OBR recognised that these would increase the size of the economy by around £7 billion by the end of 2029-30. Those sorts of things, which are not spending but



regulatory decisions, also have a huge impact and allow that positive, self-reinforcing reinvestment that the Government are trying to deliver.

- Q65 **Michael Payne:** That is very helpful, Conrad. Historically, as I think the Heseltine report pointed out, central Government tends to be focused on function rather than place. If I may, and without being critical of the Treasury, the Treasury has probably come into criticism for that historically. Do you recognise there is a need to shift from looking just at function to looking more at place? Is there a need to recognise that for places like mine and those of other colleagues on the Committee, pride in place—a sense of pride in where you live and of local government playing a role in making sure that the communities around all parts of the country are thriving and nice places to live, socialise and work in—is important? Do central Government Departments need to look more at place rather than just focusing on function in a way that maybe historically they have?

Conrad Smewing: I absolutely agree with that. Will might want to add more on this, as he is far more expert on this than me. The shift to integrated settlements for mayors, allowing decision making much closer to the local area on what is going to work best for that place, is something that the Treasury is absolutely very supportive of and trying to facilitate through this spending review.

Will Garton: I had 16 years in the Treasury before I came into MHCLG. To be fair to the Treasury, it has championed the mayoral devolution agenda since 2014. As Conrad said, one of the biggest reforms we are making—I am convinced it can get better outcomes and lead to better value for money and more efficient public spending—is the integrated settlement for mayoral combined authorities. That takes housing money, local growth money, adult education budget, retrofit and DFT capital, puts it into a combined settlement, and allows it to be spent on the place. It also allows money to be vired between those pots—transfers from one year to another, and capital to revenue switches. You do not start to think about the transport project in isolation from the housing development, in isolation from where the FE college will be constructed or in isolation from where you are retrofitting homes; you can start to integrate those things.

I think we are making big progress. The first integrated settlement was launched just this week for Greater Manchester and for the west midlands. One is coming down the road next year for the north-east, for South Yorkshire, for West Yorkshire and for Liverpool city region. Mayors are very keen that they want more of this. It is a way of forcing place-based thinking into Government, so it is a big change.

- Q66 **Chair:** Permanent secretary, can I take up one thing you said in answer to Michael Payne? Before I ask this question, I should declare my entry in the register of interests as a chartered surveyor. You are planning an infrastructure Bill that is going to take more control over local plans, and you want to deliver more social housing. If you want to deliver more social housing in that 1.5 million, where is the money coming from to do that?



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Sarah Healey: I am sure my housing and planning colleagues would want me to say that the Bill only takes control over local plans where local areas have not produced them. It has set ambitious targets, but I think that is all about saying that we have a crisis in housing in the country and we need to address that. Was your question about funding, specifically?

Q67 **Chair:** You said—quite reasonably; I am not criticising—that you want to produce more social housing, so the ratio is going up in terms of that 1.5 million. How are you going to do that? Where is the funding going to come from for that?

Sarah Healey: As I have already championed a few times in this hearing, the commitment to a future affordable homes programme absolutely includes a commitment to social housing. It has been a very successful programme that we have been spending our budgets extremely well on in recent years. I do not know what the final settlement will be in the spending review, but we have got an extension of £2 billion for next year confirmed already so we can start getting on with plans.

Q68 **Chair:** I am not sure that we have actually delivered the number of social houses we need, otherwise we would not have the problems that—

Sarah Healey: I did not say we had delivered the number of social houses we need; I said that we had been spending the budget that we had received.

Q69 **Chair:** You said that the budget had been spent really well. Has it achieved what it needs to achieve?

Sarah Healey: It has been delivering housing, but obviously we want to continue to see it do that.

Q70 **Mr Betts:** I am listening with amazement, permanent secretary. We conflate the terms “social housing” and “affordable housing”, do we not? The vast majority of money for affordable housing programmes has been spent on shared ownership for the last few years, has it not? That is the reality.

Sarah Healey: Ministers have set out an ambition for the future on affordable homes.

Mr Betts: I am not denying that Ministers directed it.

Sarah Healey: The original question from the Chair was specifically about where the money will come from for the future investment. I was explaining that that is where the money will come from for the future investment in it.

Q71 **Mr Betts:** The Government’s ambition is 1.5 million homes over the course of the Parliament. Nowhere have we seen a clear plan as to how those houses will be built, in what tenure or by which organisations, or how they will be paid for. That has not been set out, has it?

Sarah Healey: I would absolutely love to come back and do a full hearing on housing for you and talk you through it, but we are producing a long-



term housing strategy to run alongside the spending review. That will set out the fact that we believe that in order to meet the 1.5 million homes target, as the Housing Minister has said, we need to take action across everything: planning, as Conrad mentioned earlier, but also the funding of those homes, the approach to design and quality, and take all of that into account together.

Q72 Mr Betts: We could probably pick that up in detail on another occasion. Moving on, I cannot resist saying to Mr Garton that the single-pot funding for mayoral combined authorities is great, but I must point out the pace at which things operate. The first combined authority in Manchester has been in operation for what, 10 years? It has taken 10 years from the authority being set up to actually getting the single pot. The process is not very quick, is it?

Will Garton: The intention for the integrated settlement—

Q73 Mr Betts: Just say yes.

Will Garton: Regarding the integrated settlement, the previous Administration announced a single settlement in the trailblazer deal with Greater Manchester in, I think, November '23. I think the right barometer is not from when the deal was first struck, which was 2014, although I do not think there was a mayor until 2016. The right barometer is from when the Government policy was announced, which was certainly in 2023—I think it was November—and when it is up and running. That was partway through that financial year, and it was up and running by April 26, so yes, I do think that is quite quick.

Q74 Mr Betts: So the Departments were quite quick, but the politicians were not very quick.

Will Garton: It was a decision for Ministers. They made a policy decision in April 2023 and we implemented it. That is, as you know, how the system works, and so it should be.

Q75 Mr Betts: Going back to the national insurance changes, which you kindly answered some questions on earlier, I am told that the Local Government Association has done some calculations where it says that the cost of the national insurance increases directly to local governments has been £637 million, but the amount of money local governments got to compensate is £515 million. That was £515 million to compensate for a cost of £637 million, but then there are indirect costs of £1.1 billion to the private sector providers to local government. However local councils try to square that—whatever they do—there is a shortfall of more than £1 billion, according to the LGA.

Nico Heslop: We look at all those things in the round, as part of the whole settlement, absolutely recognising—you asked the question before about the places in your constituency—that it is difficult for some of those places. In the round, however, through both the spending review and the local government finance settlement, we put in £5 billion of extra grant. We tried to do that in a way, as Will and Sarah said, that is consistent with where we want to move in future—fewer ringfences and greater flexibility



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for local government—and that led to a significant uplift in core spending power, a real-terms increase for the vast majority of the sector.

Q76 Mr Betts: Are the LGA's figures wrong?

Will Garton: They are the LGA's figures. We have not critiqued them or done our own assessment of whether the LGA is right or wrong.

Q77 Chair: Permanent secretary, if you think the LGA figures are wrong, will you write to the Committee with what you think the true figure is?

Sarah Healey: We can write to you and set out the approach that we have taken to NICs funding.

Chair: That would be helpful.

Q78 Mr Betts: May I move on to wider issues and even bigger challenges? The statutory override has been in place now for a few years. It is coming to an end at the end of this year, apparently. That is the policy currently. What are you doing with your colleagues in the DFE to decide what will happen once the override comes to an end?

Sarah Healey: Nico is our resident expert on this one.

Nico Heslop: As Sarah said, a huge amount of work is going on in Government at the moment on special educational needs funding and, specifically, on the statutory override. We in Government absolutely recognise the figures in the NAO Reports about the size of the deficit and the impact that that would have on quite a large number of local authorities if the override were to end in March '26. The plans and the conversations that we are having are very live. We will set out more detail as part of the spending review and at the provisional local government settlement in the autumn. We will have to have a plan for looking at SEND—the Secretary of State for Education has been clear that, on SEND specifically, all options are on the table, and there is a desire to increase mainstream delivery of SEND, making it more inclusive and part of the whole school system—and, as part of the transition, we are working on plans for the DSG deficits. We are absolutely clear, however, that there needs to be a plan both on SEND and for the deficits. We are working hand in glove with Conrad and his team.

Conrad Smewing: I agree. The only the only thing I would add is that the important issue is the underlying spending pressure. That is central to the discussions in the spending review. There are very live discussions on how that pressure should be managed, and what reforms should be undertaken. The spending review as a whole covers both DEL spending and annually managed expenditure. The statutory override in place in '25-26 effectively comes through in the OBR forecast as increased annually managed expenditure, so we look at both those things together. The key point, and what the spending review aims to do, is to set out a sustainable position for local government as a whole and special educational needs funding within that over the whole period of the spending review.

Q79 Mr Betts: Right, so it is going to be incorporated into the general local



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government settlement going forward. How do you deal with the historical deficits? Either those councils will have that lead weight, which you will have to deal with somehow, or you will write the deficits off, in which case, councils that never had a deficit will say, "Wait a minute, they have just been given a funding bonus that we have never had."

Nico Heslop: We are working through all options at the moment. We cannot say more, because we have not yet taken a policy decision as part of that, but we are looking at all options on the deficits. We absolutely recognise some of the issues that you have set out, and we will set out more detail as part of the spending review and as part of the local government finance settlement.

Q80 **Mr Betts:** Are you going to be looking at what happens going forward with the overall spending, but also at how you deal with the specific legacy?

Nico Heslop: Absolutely, for the reasons set out in the NAO Report. If we did one and not the other, we do not think it would be a good outcome for local government.

Q81 **Mr Betts:** Moving on to the financial reforms that we are going to see, I suppose local government may still be a bit sceptical. Over the past few years, we have had a fair funding review, which never quite happened; business rate reform, which still has not really happened; and promises from the previous Secretary of State, Michael Gove, about council tax reform, and then that was sort of backtracked on, after he called it a regressive tax and everyone decided that a review of it was not taking place. We have been through quite a few different proposals for reform, and nothing has really happened. Can we be certain we are going to get some fundamental reforms this time?

Sarah Healey: We have consulted and started on them, as we have already said, in the way that we distributed last year's settlement.

Nico Heslop: I think my team would be terrified if I told them now that we were not going to do it, given how hard they are working to get everything ready.

Will Garton: We do not have a choice.

Sarah Healey: The Minister has been absolutely clear about that.

Will Garton: We all understand how difficult it is for local authorities right now. There is no choice but to do reform.

Nico Heslop: We have had a huge number of helpful conversations with the sector. We have gone through all the first consultation responses, and we are working with Ministers quickly, alongside the spending review, to finalise policy decisions to allow us to consult in June.

Sarah Healey: Obviously, it is up to Ministers exactly what the shape of that is, but the fact that reform is coming is clear.

Q82 **Mr Betts:** Are these reforms, which will be looked at as part of an overall



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package, solely reforms to how money is distributed or are they also reforms to how money is raised?

Nico Heslop: As we set out in our first consultation, the things we have consulted on primarily are around how we get a better assessment of need within the sector—all the stuff we have discussed already, with out-of-date formulas and updating all of them—and then, as you say, how we distribute the funding, taking into account in an up-to-date fashion the differing ability of places to raise income themselves. We did also ask some questions in the first consultation about sales fees and targets, and we had some interesting choices around that. In terms of income, we have already set out some possible things around second homes and empty homes, and several responses to that consultation came up with other suggestions. For instance, I know that a tourism tax is something that the sector is particularly interested in.

Q83 Mr Betts: These are relatively small revenue generators, in the end. Apart from the Government grant that you are looking at how to distribute, the big potential income earner for local authorities is council tax. Is that on the agenda for this part of the reform?

Nico Heslop: Ministers have been clear that they are not going to undertake a fundamental re-evaluation of council tax at this time.

Q84 Mr Betts: So, no changes for council tax?

Sarah Healey: They have been very clear that they are not going to undertake a fundamental re-evaluation.

Q85 Mr Betts: Business rate reform? That is a Treasury responsibility, is it not?

Nico Heslop: We have already taken through—it received Royal Assent yesterday—a first Bill on non-domestic rates that introduced some changes and quite a significant set of reforms. We have been clear that in so far as business rates relate to the local government finance settlement—obviously, there is a close interaction—a key part of our funding reform is to undertake a business rates reset. That is key to the distribution reforms. Rather like some of the questions we answered about further fundamental reforms, they are all decisions for Ministers once we have undertaken the business rates reset and done the redistribution reforms.

Q86 Mr Betts: That is a reset within the existing framework, so it is not a change.

Will Garton: It has not been done since 2013-14.

Conrad Smewing: On the tax itself—I am not an expert on this, as it is another bit of the Treasury's responsibility—my understanding is that there is a discussion paper on priority areas for future reform of business rates. There is a manifesto commitment for 2026-27 to shift the balance of business rates away from properties with a rateable value below £500,000, paid for with ones above £500,000. I think the question you are



asking is more about that discussion paper on future reform, but I do not have more than that.

Q87 Chair: As Clive says, this is a reform within the existing system, but the second phase of that is that there will be a consultation on how much is actually retained by local government and how much is retained by national Government. Nico, am I hearing that?

Nico Heslop: There are two things. Conrad has alluded to the discussion paper that is out, which is more about reforming the central running of the tax. The thing that we will cover in our consultation in June is resetting the 50% retention that the sector has.

Q88 Mr Betts: Sarah Healey, we understand you are already sleeping very comfortably at night. When all that is done, will you be able to sleep even more comfortably? Do you think, in the end, that these reforms are going to put local government finance on a sustainable footing?

Sarah Healey: Yes, I think they will significantly improve the position of local government.

Mr Betts: A politician's answer from an official.

Sarah Healey: I do not know what you want me to say in response to that question. What I absolutely can say is that we think we are doing the right things to reform local government finance. We have thought about it very, very hard. There are always things that can change in the context that can surprise you, and that has been true over the last few years. We would not have expected or anticipated some of the pressures that have arisen in some areas.

Trying to get me to say to you that everything is going to be fine and there will not be any issues, when I cannot foresee all that context, is not something that I am going to say. We do not know the outcome of the spending review. We have just had major international turmoil already affecting the overall economic position. I just want to be clear; we are doing absolutely the right things to put local government on a sustainable future footing.

Q89 Oliver Ryan: To follow up on that, what is the timing and sequencing of the funding reform, local government reorganisation, local audit reform, service reform and some of the other reforms you have talked about in council tax and business rates? What is the sequence?

Sarah Healey: It is all happening at once.

Nico Heslop: I have said this a lot to the sector and Will may want to come in on reorganisation. On reorganisation, we have proposals in from the sector at the moment. We are at the stage of beginning to give feedback on some of those.

In June we will consult on the funding reforms, the redistribution and the formulas, and local authorities will have good idea of the direction of travel in those reforms in June. That will be informed by the spending review



outcome. As Sarah has said before, it will include detail around transitional protections and that sort of stuff. Then coming out of the spending review, we all very much hope that we will be able to provide much more clarity on children's social care reform, homelessness and temporary accommodation and the SEND conversation, including the DSG deficits.

That will then feed into a provisional local government finance settlement. Everyone is asking me, "Will it be before December?", to which the answer is, "We hope so"—but not by much, because once you have done the consultation responses back in June and then taken a final set of decisions, I would have thought it will be late November. That will set out a funding settlement, which we very much hope will be over three years. That would be the first multi-year settlement for a decade. It will also set out the funding consequences of some of those reforms to the high-cost areas.

We will then also have local government reorganisation. The way we probably think about it is that the local government reorganisation is on a timeline whereby we will not factor that into the multi-year settlement that we are setting out in late November or early December, because those decisions, both locally and nationally, will not have been taken by that time.

Q90 Oliver Ryan: Some of this stuff is huge. How confident are you that you have the capacity within the Department to run all of this at the same time and get it done to a high enough standard? On the point about local government reorganisation, there are time windows that are already set out, but why can we not do that faster in areas that are up for it?

Sarah Healey: I will say something and then hand over to Will. In terms of capacity in the Department, it is my responsibility to make sure that we have the resources where they need to be. Clearly, we have a lot going on in terms of housing reform and planning reform as well as local government reform. I am confident that so far, we have made the right decisions to put people into the right places. We always keep that under review and listen to feedback from local government that we are working with as to whether they are getting the service that they want and need. We will continue to keep that under review.

Will Garton: Why can't we do it faster? Our objective and aim are to have the process of local government reorganisation with new authorities going live by April 2028. That is as formally, legally constituted bodies. From previous experience what often happens in practice is these start to operate in shadow form well before then. It is a mix of the statutory process, the consultations that we need to undertake, and also just needing to make sure that we get this right. As we have articulated already in this hearing, this is a big deal and there is a trade-off between speed and the risk that if you go too fast that will start to get some of it wrong.

Q91 Oliver Ryan: If you need to do one particularly quickly, Lancashire would be worth looking at. You let us know if we can help.



Will Garton: Surrey is first on our list.

Q92 **Chair:** Just to follow that question, would you expect to have elections in a shadow form in 2027, or in an actual form in 2028?

Will Garton: Elections have been postponed by one year only. Elections that were postponed from May 2025 will be held in May 2026. There is a slightly different timetable for Surrey; I would want to check that. I can write to you and give you an answer.

Chair: I am very happy for you to write to us. This is important and there will be a lot of interest in the answer to that question.

Q93 **Anna Dixon:** On the longer term, this is a major reform and it is important there is stability in how it then beds in given the transition. We have recognised that, in parallel, there are other reform discussions on. I would like to pick up on one in particular, which is the Casey review of adult social care looking at a national care service. The terms of reference have not yet been released, but we do know that there is a first stage of reporting in 2026 for the medium term and then 2028 for the longer term.

In the pre-election Fabian Society report feeding into the Government on the national care service idea and in Scotland there were very significant possible changes to the role of local authorities in the funding, commissioning and delivery of adult social care. How will you ensure that your reforms of local government finance are going to, first, be resilient for the long term but, secondly, recognise there could be some further fundamental reforms in 2026 or 2028? Depending on the council, these reforms would affect quite a significant proportion of local government funding.

Nico Heslop: We speak to the Department of Health the whole time. We are engaging very closely with the Casey team. One of our very treasured former colleagues, who used to work very closely with me, is now running that review for Louise and working with her on that. This is fantastic because she has excellent experience of local government and it means that local government will be at the heart of thinking on this.

The timing probably works in the sense that we will be setting out the reforms to our finance system from April next year. Those will take three years to fully bed in, as Sarah said. The Casey report, as you say, is reporting in '26 for a first stage and '28 for a second stage. As is the way with these things, it is unlikely that the fundamental changes will happen then.

As I said beforehand, we think it is important that before you consider any of the very interesting and big reports—and we have read and found interest in the Fabian Society report and various others—you need a more stable footing in local government. It is right that our reforms give greater stability, as Sarah has said, and then whatever the Casey review ends up recommending could build off that.

Q94 **Anna Dixon:** So you are reassuring us that the timelines for those can match up, and that your plans will accommodate any proposals coming



out of that review.

Nico Heslop: Yes, I think is the answer. The plans we set out may need to be adapted depending on the exact form of the Casey review recommendations.

Q95 **Anna Dixon:** One of the other join-ups is between health and social care budgets locally. We received evidence from the NHS Confederation expressing frustration that pooled allocations, particularly around the better care fund, are often coming out late and are not joined up with when local government hears about its funding and when the NHS does. This was also raised in one of the previous Committee sessions. As you set longer-term, multi-year allocations, how are you working to ensure that local government and the NHS are able to plan jointly on critical areas covered by things like the better care fund?

Nico Heslop: We recognise that. I am one of three accountable senior reporting officers for the better care fund, alongside a colleague in the Department of Health and a colleague in NHS England. We work incredibly closely on that. I recognise that in previous years some of that planning guidance has been issued late, but for 2025-26 we produced the guidance in early January, I think—it may have been February—but it was earlier than in previous years. In the future, that kind of integrated pooled-budget model is something that we will want to see more of. I was just about right—it was 30 January.

Conrad Smewing: One of the underlying reasons why that NHS planning guidance has not been timely is that the spending framework to date has been much too hand-to-mouth, with one-year extensions. It was not ideal that the spending review for 2025-26 had to take place in November last year, because the previous Government took a decision to delay the spending review until after the election. We now have a system where we are planning four years in advance, and the spending review is in June, so that should make a significant difference to the ability to do the kind of close spending review join-up that is important.

Q96 **Anna Dixon:** We have heard a lot about local government having less of these ringfenced pots of money and greater flexibility. Will you be extending such flexibilities to allow greater pooling of budgets and allocating of resources between health and care, as the NHS Confederation propose?

Conrad Smewing: I am not familiar with the specific proposals they are making there.

Anna Dixon: Extending the flexibilities around things like the better care fund, for example.

Conrad Smewing: As a general principle, we are very supportive of using these kinds of mechanisms that allow better join-up between different parts of the system. One of the things that we are doing differently in the spending review this time around is to focus it much more around the Government's missions, which are all very cross-departmental.



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With the health mission, which involves both the Department of Health and Social Care, local government and many others, the process that we have been following has been allowing much more of a discussion between Departments at an earlier stage in the spending review. In principle we are very much in favour of that kind of thing.

Q97 Anna Dixon: One last thing: we have talked so much about demand-led and statutory services, but almost nothing about the very important discretionary services that make a huge difference to my residents' day-to-day quality of life, whether that is parks, arts and culture, library services, or waste management. In its local government Report, the NAO states that the Local Government Information Unit, in its recent finance survey, suggested that as many as a third of councils are planning cuts in all of these areas.

If we take something like potholes, the DFT are choosing to ringfence pothole funding and require quite a lot of detailed information to be provided by local government. It is all very well having greater flexibility, but do other Government Departments buy into that? That is an example of the DFT wanting to make sure because otherwise, if that money just goes into the general local government pot, it will get absorbed by statutory services, and those important day-to-day so-called discretionary services will continue to get cut.

Sarah Healey: I will let others come in on the detail of the potholes issue, but to be honest I think councils have done an amazing job of sustaining spending on some of those critical services. As a former permanent secretary for the Department for Culture, Media and Sport, I recognise the absolutely huge value in leisure, recreational arts and culture activities, and libraries for giving pride in place and a sense of community. I recognise the significance of those things for healthy communities and lives. I think councils have done a really fantastic job of that. Do I think the answer to the fact that local government has been squeezed on funding is to give it more duties and more forms to fill in for central Government? In principle, no.

Nico Heslop: We have set out a very clear ambition here. It is fair to say that historically we may not have always had the best grip on how many grants there are outside of the local government finance settlement. I can reassure you that that has changed. There is a team in our Department working very closely on that with Conrad's team and meeting with all Departments. I think we will make good progress. We already consolidated, I think, between five and 10 grants into the '25-26 settlement, and I am sure there will be more to come.

On your question, I know that you were not implying this, but I think when you speak to local authorities, they find the idea of statutory versus non-statutory a bit binary, for the reasons that you are suggesting. At a local level, culture, art and so on are so important to some of the prevention that we want.



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I would also make the point that our funding reforms are absolutely key here. Whether it is potholes, culture spend or whatever, outcomes are less good in places that have traditionally received less money—that is not the world’s most surprising thing—and places that have had more money have, for very sensible reasons, taken the decision to maintain those sorts of services and maintain spending on prevention. Shifting what will end up being quite a significant amount of money to places that are less able to raise revenue locally will give greater flexibility and an ability to maintain some of those key non-statutory services.

Q98 Anna Dixon: On the point about data requests to other Government Departments, it is brilliant that the Government have given extra money for potholes—they are an issue that my constituents are concerned about—but is that basically because they have not had a grip on what the condition of roads has been? How are you going to continue to co-ordinate and make sure that there is not a bureaucratic burden on local authorities to be accounting for all sorts of individual things?

Nico Heslop: There will always be some areas of spend that are very important, either to residents or politically, and potholes is possibly one of those things. As a general rule, our expectation—and this is certainly how we have begun to do it in the settlement this year—is that we will give local authorities greater discretion over more money, with fewer micro-controls and reporting requirements.

I am a real advocate for this, and I probably irritate lots of people all around Whitehall, but even I accept that there will still be cases where you need some ringfences and some reporting requirements, particularly around prevention spending, as Sarah said. But I think you should expect to see a general shift coming out of the spending review and into '26-27.

Q99 Anna Dixon: But somebody has to push back on Ministers.

Sarah Healey: We do. At official level, we absolutely have robust conversations with colleagues about wrapping in grants. I would definitely not take the view that they just have not understood. From their perspective, they have a set of accountabilities: they end up in front of Committees that ask them questions about why they have not delivered x, y and z, and they can point to an amount of money they put in, but not necessarily to the leverage they have on how it comes out. I therefore fully understand why they might go for a mechanism that is about ringfencing, grant requirements or other things.

Ministers have set out how they would like to pursue this. It then behoves us to set out the proper performance framework for local government that gives my colleagues confidence that, if they do wrap in these funds, they will nevertheless be able to judge overall broad performance, without it becoming overly onerous for local government and without necessarily requiring reporting on every last micro-detail.

Q100 Anna Dixon: I would just point out the slight paradox in that response and the earlier response, when we were talking about adult social care and the market sustainability and improvement fund, where the view was, “No,



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we can't tell them or ask them; it is entirely up to local government." So we are scrutinising the spending on potholes, but we do not know whether the adult social care sector is about to fall over.

Sarah Healey: Without commenting on potholes at all, it is about outcomes rather than inputs. I think that is the difference. We are moving to an outcomes-based performance framework.

Q101 **Anna Dixon:** I think there needs to be consistency across Government Departments and across areas of spend, so there are appropriate levels of accountability and assessment to give reassurance nationally, while recognising that there is local accountability.

Nico Heslop: I made this point before—perhaps I did not make it clearly enough—but the market sustainability and improvement fund, which is the £1 billion fund that I referred to earlier specifically around the adult social care market, does have requirements around reporting, evidence and transparency. I take your general point, but on that specific example, we gather more data on it.

Q102 **Anna Dixon:** And would the local audit office have a role in supporting that in future, in terms of transparency on what is being spent and on what outcomes are being delivered?

Will Garton: Specifically on adult social care?

Anna Dixon: No, I am thinking in general about this idea of having an accountability framework, and having data that can give some assurance on what outcomes are being delivered for what spend.

Will Garton: Policy decisions on that part of the remit are still to be made, but that is definitely a possibility. We want to agree, as Sarah has articulated, a simple, accessible outcomes framework for local government, which has a number of metrics below it from which we can judge performance. We want to get the right balance between that not being too onerous with hundreds of forms being filled in, and still ensuring that there is accountability to Government and to Parliament. We are working that up now. We will say more on it in due course, but that is the sweet spot we are aiming for.

Q103 **Chair:** I must pick you up on that answer, Will Garton. You said that you will gather more data so that we know what we are getting for our money. There was a key recommendation in our roads report, relating to how we simply did not know what the state of our roads was for the amount of money we are spending. Surely, it is absolutely essential in delivering Government services that we have the data, so that we know whether we are getting good value for money for each service?

Will Garton: I said that we are looking at trying to agree, for the finance settlement, a set of outcomes rather than inputs, and below those outcomes, a number of metrics by which the outcome can be judged. That will invariably include and be informed by data. There is a legitimate question as to quite how much data we require of the sector currently. The Department is not doing this any more, but when I first joined it, we had



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400 different metrics for the various local growth funds. I am not actually sure that we have a better picture on local growth funds as a result of those 400 metrics—it is too many. We had a big effort to try to consolidate and reduce and move to an outcomes-based framework. There is a trade-off between flexibility and autonomy locally, and the amount of prescription and detail that central Government can demand of local government.

Right now, in various parts, as Sarah and Nico have said, we are moving in a direction of trying to measure outcomes, not specific inputs. For example, on the high street regeneration funds—I think we have discussed this in the Committee before—one of the questions we asked was, “How many metres of high street have you regenerated?” In one sense, that sounds like a perfectly sensible question, but it is not apparent to me, having looked at it, that 50 is better than 40. I do not know that. I cannot tell that from the data. We have to be careful to get the balance right and look at the overall health of the high street, and not just a narrow set of metrics that do not actually tell us very much.

Nico Heslop: To build on that, it goes back to the point that we made about measuring the £70 billion. As a Government over time, we have probably been guilty of measuring the specific inputs. We measure a £1 billion grant on adult social care, but local government spends £26 billion on adult social care, and we have not necessarily been measuring the whole of that. The outcomes framework is about measuring the full amount of the £70 billion, trying to bring in even more funding into that £70 billion from the hundreds of grants outside of the funding settlement, and doing it in an outcomes way, as Will suggests.

Chair: I am not sure that I am totally convinced by these answers, but we will look at the transcript fairly carefully and see what we need to recommend in our report.

Q104 **Michael Payne:** We touched a little bit on prevention earlier, and Nico, you were just talking about it a bit more. From 2016-17 to 2023-24, spending on the NHS has gone up 20% in real terms. Over the same period, spending on public health—largely prevention—is down more than 10% in real terms. If you take that as an example, the question to Conrad, with Sarah, Nico and Will to follow on, is, how is the spending review going to support a shift specifically to prevention and support for prevention? As a flow-on from the spending review into MHCLG, how will MHCLG incentivise prevention in the next local government finance settlement? Your local government finance policy statement in November 2024 had a very specific commitment about the need to shift to prevention in order to tackle some of the failure in services. In real terms, what shift to that will we see?

Conrad Smewing: The first thing that I should say on prevention in particular is that it is not just about spending. There is a very important role for both regulation and tax. If you are thinking about the health space, things like regulation on smoking, creating a smokefree generation and the soft drinks industry levy are very important too.



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On spending in particular, making the shift from downstream to upstream prevention is a big part of what we are trying to do in the spending review. I would pick out three things in particular. The first is the multi-year element of it. That is a sine qua non of doing this sensibly because you need to have the incentives in place—that you make savings down the line with investment up front. That is a very important part of it.

Secondly, you need prioritisation and focus on policies that will pay dividends in future years. As I said before, a large number of the crucial reforms that we are trying to focus on in the spending review have the shift to prevention at the heart of them. We have already talked about the local government ones, but the health 10-year plan and the shift from treatment to prevention will be central to that.

The third thing is that you need to set aside some funding up front to try to ease that. You have an acute trade-off between treating the symptoms, which you have to carry on doing, and making more investment in dealing with the causes. One of the things the Chancellor announced in the spring statement was a £3.25 billion transformation fund. We will be looking at all the ways you can invest to save. That is digital investment and things to make Government more efficient, but it is also thinking about investing up front to make the shift to prevention, which can save money in the later years of the spending review. That is how we are approaching it in general.

Nico Heslop: Specifically on the funding, notwithstanding what happens in the spending review, how do you translate that? As Sarah said before, we have already begun to do that in '25-26 by putting ringfenced funding into the homelessness prevention grant and increasing that. We have introduced a new grant: the children's social care prevention grant. As Conrad suggested, there is always a trade-off between dealing with what you have in front of you in terms of service demand and shifting to prevention. There is pretty compelling evidence, particularly around children's social care, homelessness and temporary accommodation, that both the outcomes for people and the payback periods are pretty quick. I would expect us to try to continue that sort of approach.

Sarah Healey: Being able to pool funding makes a real difference here. You talked earlier about place. We in MHCLG like to try to think of everything in terms of place. When you visit places, if you have services that, for whatever reason—whether to do with the way they are funded or the way they are established—cannot join up with each other, you tend to see worse outcomes than when you can do things in a collective way downstream.

What we are doing on the flexibility of funding is really important. Without wanting in any way, shape or form to return to the now highly controversial topic of the local government outcomes framework, if we choose the right performance measures and metrics for that, it should incentivise a move towards not the numbers that you are addressing in a crisis fashion, but rather, "Are you seeing outcomes for citizens improving over time?"



Q105 Michael Payne: I have one final question, which is for Sarah. Each year, in the provisional local government finance settlement, there is an envelope set out by the Minister and then there is a consultation period. Each Government Department holds consultations. However, for your Government Department, the trust and partnerships with local government really matter, as does listening to people in that consultation and the evidence they provide. Year on year, how much of that contingency is ever used, in terms of actually listening to what people say in a consultation period and genuinely taking that on board? I accept that it is a ministerial decision, but it is advised by officials, on whether the final finance settlement is confirmed—obviously, it is confirmed here in Parliament by the Minister. Are tweaks and changes often made?

Sarah Healey: The answer to that is yes.

Q106 Michael Payne: Could you perhaps write to us and share some examples?

Sarah Healey: I think we have already used one in this hearing about national insurance contributions and the distribution of that funding.

Q107 Michael Payne: It would be helpful to see some examples.

Nico Heslop: I can talk you through some now. I will mix up my financial years, but in 2024-25, between the provisional and the final, Ministers took a decision to increase the rural service delivery grant. Also, in 2024-25, between the provisional and the final, we announced additional funding, £500 million of which was for adult social care. We have made tweaks this year, as Sarah said, as a result of national insurance, so that process is absolutely invaluable.

We also, throughout the consultation, hold a series of meetings with our group of trusted treasurers, which are the representative groups of districts, counties and unitaries, so it is a proper consultation process. We certainly reflect on our approach and make tweaks to it, based on the consultation document on the funding reform, which we put out alongside the provisional settlement. It will certainly be the case that the one we publish in June will be all the better for the excellent engagement that we have with the sector.

Q108 Chair: I have one really big question to finish, permanent secretary. I am going to read this out, just to really put on record how serious the whole situation is. Paragraph 3.38 on page 58 states: "DfE recognises that immediate action is needed to address short-term financial challenges given the accumulated deficit"—this is in relation to SEND—"which under its central estimate will be £4.6 billion by March 2026. It also estimates that 50 local authorities (33%) will have cumulative deficits larger than their reserves at the end of 2025-26, with a further 16 (10%) estimated as needing to spend 75% of their reserves to clear their deficits. Some 43% of local authorities may therefore be at risk of needing to issue a Section 114 report if the statutory override ends as planned in March 2026." This is a really serious situation that local authorities are in. I have listened carefully to everything that you have all said this morning about



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all the consultations and all the proposed reforms that you will make, but how much worse is this local government sector going to have to get before it gets better?

Sarah Healey: Our aim is that it will not.

Q109 **Chair:** That may be your aim, but it is such a big problem, and you have so much on your plate at the moment, that I really fear for the local government sector.

Sarah Healey: I hope you have got a sense of not only how knowledgeable but how focused we are on some of these problems.

Chair: I get that, and I do not pretend that it is easy.

Sarah Healey: We are obviously in the process of a spending review, and it is hard to say exactly what our position will be in a year's time. We think that we are making the right reform to address the really fundamental issues, of which that paragraph is a great example, both in MHCLG and our partnership with our colleagues in the Treasury who we work very closely with, as well as other colleagues around Government.

Q110 **Chair:** I suppose the analogy I have in my head is this: various local authorities are the nuts and bolts of local government. A lot of them are rusting through and are about to bust. On top of that, you want to build an entirely new building of local government reorganisation with those rusted-through nuts and bolts. My worry is that the whole thing is going to collapse. Am I being too pessimistic?

Sarah Healey: I think so. I am an optimist, so you can aim off that. I do not want to try to extend your analogy, because I will make a mess of it, but I suppose the only way that we can ultimately fix the foundations is by making sure that local government is in the right shape to succeed into the future. That is why we do not think that there is any element of this reform, from funding distribution through to local government reorganisation, that we cannot not try to achieve. We need to achieve all of it.

Will Garton: People can dispute the PwC report, but it says, I think, that when there were 25 two-tier areas, you saved £2.9 billion over five years. That is all money that can be reinvested in services, and you have been rightly holding us to account on the critical state of local government finances. We just need that money. We do not have a choice. We have got to do both because the situation is so serious.

Nico Heslop: The Deputy Prime Minister and the Minister for Local Government have been absolutely clear that this is not something that is going to get sorted overnight and that there will be difficult choices. I think they feel like they have already taken some difficult choices. We think it will be better and we think it is the right thing to do, but we think it is not going to be without noise or without difficulty, and we will need to continue to work very closely with the sector.



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Sarah Healey: We totally do not underestimate the complexity, difficulty and indeed the genuine capacity constraints on councils to get all this done, but we think it all needs to be done.

Q111 **Chair:** Successive Governments for years have kept giving local government more and more functions without funding them properly. The net result is that the whole system has become worse; it has become more and more indebted. Surely, the fundamental thing we need to do in the future is, whatever functions we allocate to local governments, we have got to fund them properly. We must make sure that SEND needs are addressed and funded properly.

Sarah Healey: You are raising a set of questions about new burdens and how they function, and we recognise some of those issues. At the same time, some of the problems that we have been describing are about the fact that you set out a distributional mechanism and then, for whatever reason, do not change it over time. Keeping those things updated is also very important.

Q112 **Chair:** I have just one more question. The SEND system is broken, as we said in our report. Are we really going to get a whole system reform?

Sarah Healey: For the detail of that, you need to speak to my colleague Susan Acland-Hood and not to me, but we keep in extremely close touch with officials at the Department for Education who are as conscious of the need for this to be a fundamental reform as we are. From the paragraph that you read out, the financing of that alone makes that necessary, as do outcomes for children and parents as well, as we have touched on several times.

Chair: They are the people we really need to be caring about: the children and the parents.

Q113 **Mr Betts:** Clearly, a lot of the cost drivers in local government come from outside your Department—in particular, from the Department of Health and Social Care and the Department for Education. Looking at local government as a democratic institution and at its responsibility to local people, do you have concerns that there is a real breakdown? Many in our communities do not get social care and do not have a child getting special education; they just see what they get from their council—the roads swept, the grass cut, the street lights on, the bins emptied—deteriorating. But every year they get 5% on their council tax bill and seem to be getting less services. People write to me to say, “But what’s it for? Why am I paying more and getting less?” Is that not a real undermining of the whole principle and purpose of local government? Are you concerned about that? Are you doing anything to evaluate that?

Sarah Healey: I am concerned about anything that undermines the health of local government, which I think does an unbelievably important job and is absolutely critical to joining up services that respond to local needs. Some of the conversation we had earlier about “non-statutory” or “discretionary” services speaks very much to the point about why it matters to create healthy communities and not just deal with the acute



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end of services. A lot of our reforms, and indeed the reforms of my colleagues around Government being driven by Ministers in their Departments, are about that problem.

Q114 Mr Betts: Has your Department done any formal assessment of what is actually happening and what local government is able to deliver now in terms of those ongoing services to communities as a whole in place? What reductions have there actually been in terms of people's experience of local government services and the amount extra they are being asked to pay?

Nico Heslop: First of all, we look at that as part of any spending review. Secondly, as I was saying earlier, when you look at the outcomes of local government, there is a clear link between relative funding in the system and outcomes. Places that are relatively receiving less money achieve worse outcomes on everything, from potholes, to leisure, to children's and adult social care. We look at that very closely. We also, as Sarah said, run the new burdens framework. We are doing a lot of work with our Ministers at the moment about whether that is still the right way of doing it, and whether we need to think more about that. I would expect that we would say more about that in any June consultation where Ministers decide to do anything differently. But the answer is yes—we think about all those things a lot.

Q115 Mr Betts: Do you do any formal assessment that is published?

Sarah Healey: It is a very complicated picture, as you know, because there are lots of different inputs here. There are issues to do with what the effect of reforms is likely to be, as we have discussed during this hearing. As part of a spending review, when we are discussing with Conrad and his colleagues where we may end up on a settlement for local government, we look in the round at all the different issues that affect future funding. Indeed, the consultation on reform of funding sets out in quite a lot of detail how the approach that we are proposing might be used in future to assess needs to create funding that matches them better.

Chair: I thank our witnesses very much. We do not underestimate the huge and complex task that you have ahead of you, and we wish you well. On behalf of all our citizens, we really hope you succeed and deliver on their behalf, but we do not envy you in the job you have. Thank you very much for your time today. We will no doubt examine all these issues again before too long. An uncorrected transcript of this hearing will be published on the Committee's website in the coming days. As I have already indicated, the Committee will consider the evidence you have provided today and will produce a report with recommendations in due course.