

Public Accounts Committee

Oral evidence: COVID-19: Local Government finance, HC 945

Monday 15 March 2021

Ordered by the House of Commons to be published on 15 March 2021.

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Members present: Meg Hillier (Chair); Gareth Bacon; Shaun Bailey; Olivia Blake; Sir Geoffrey Clifton-Brown; Peter Grant; Mr Richard Holden.

Gareth Davies, Comptroller and Auditor General, Aileen Murphie, Director, National Audit Office, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-55

Witnesses

I: Lorna Baxter, Finance Director, Oxfordshire County Council, Carol Culley, Deputy Chief Executive and City Treasurer, Manchester City Council, Martin Reeves, Finance Lead, SOLACE, and Rob Whiteman, Chief Executive, Chartered Institute of Public Finance and Accountancy.



Report by the Comptroller and Auditor General Local government finance in the pandemic (HC 1240)

Examination of witnesses

Witnesses: Lorna Baxter, Carol Culley, Martin Reeves and Rob Whiteman.

Chair: Welcome to the Public Accounts Committee on Monday 15 March 2021. Today, we are looking at how the covid-19 pandemic has impacted on local government finance, and we are particularly delighted that the National Audit Office has produced a very useful report underlining the pressures of covid-19 across local government. Add to that the pre-pandemic cuts over the last decade or so, and local authorities are now facing some really difficult choices about how they balance their budgets over time.

Although elements of the response from Government have been very good, in that money has got to the frontline, we want to hear today from frontline practitioners in local government and their representatives about what that has felt like in real time and what the challenges are of funding for the future.

I just say to those who are following our work on the pandemic: don't forget to follow the hashtag #CovidSpending, to keep up with all our work on covid-19.

I welcome our witnesses today. We have with us Lorna Baxter, president of the Society of County Treasurers and finance director at Oxfordshire County Council and Cherwell District Council; Martin Reeves, chief executive of Coventry City Council and finance lead at SOLACE, the Society of Local Authority Chief Executives and Senior Managers; Rob Whiteman, chief executive of the Chartered Institute of Public Finance and Accountancy, also known as CIPFA; and Carol Culley, deputy chief executive and city treasurer at Manchester City Council.

We are really pleased to have you here with us today. This is ahead of a session that we will have with Government officials on Thursday, so we are really hoping that you can be candid with us about the good bits, the bad bits and things that could be better, as well as the challenges ahead, as I have highlighted. Without further ado, I ask Olivia Blake MP to kick us off.

Q1 **Olivia Blake:** This question is to all of you, but I will ask Lorna Baxter to answer it first, if that's all right. In terms of the financial support and the impact that covid-19 has had on councils, what is the thing that is



making you worry the most at the moment?

Lorna Baxter: The thing that is making me worry the most is actually not the position in the current financial year or for 2021-22; it is the longer-term impact in terms of finances, because obviously we haven't got any information beyond '21-22 and we know that covid is going to have quite a long-term effect. Being able to plan for the medium term is a very important part of being a local authority section 151 officer, so that's the bit that is causing me the most concern, rather than the immediate impact.

Q2 **Olivia Blake:** Can I quickly follow up and ask whether you are particularly concerned about the medium or long-term planning around business rates and the impact that covid is having on that?

Lorna Baxter: Yes, I think the uncertainty in terms of local government reform, including the business rates reset and the 75% business rates retention, is having quite a significant impact, particularly in district councils and particularly in my authority, Cherwell District Council, where we have seen significant growth in business rates since the introduction of the 50% retention scheme.

We would expect to lose a lot of that growth when the business rates are reset. Obviously, in terms of planning, we don't understand at this point in time at what point that is going to kick in; it is linked to the reform of local government. So that is adding another complexity and uncertainty.

Q3 **Olivia Blake:** We talk a lot about cliff edges in local government. Do you feel that a new cliff edge has been presented as a result of covid?

Lorna Baxter: Actually, it is not another cliff edge in a way, because we are seeing the impact of business rates hitting directly, particularly on the district council, so some of the impact, in terms of the growth that we have seen, will drop off already, as a result of the impact of covid.

So it's not actually another cliff edge in some respects, although, again, you can think about the longer-term impacts and what is going to happen, in terms of economic recovery, with things like car parks for district councils and, for upper tier authorities, the impacts of things like social care and the impacts that that might have in terms of a cliff edge on additional costs. So really it is not particularly a cliff edge, but just that uncertainty that is causing difficulty in planning.

Q4 **Olivia Blake:** Martin Reeves, would you like to answer next? What is keeping you up at night, and what is your most worrying thing?

Martin Reeves: I will keep it focused on this issue; I won't repeat what Lorna has said. But let me just say that, right at the beginning, and because I am quite a visual person, SOLACE created four buckets—the bucket list of funding, which has proved really helpful with a lot of Treasury and MHCLG colleagues over the last year.

The first one was about emergency funding—by and large, as I'm sure you will find out today from other witnesses, the direct expenditure audited



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and accounted for as a result of covid: money out, and roughly money back in.

The second bucket is what I call emergency funding-plus: more indirect expenditure, issues around lost income and some other structural challenges for local government about how we put our finances together. It is more challenging there, and I know we will come back to the later.

The third bucket is reset and recovery. For every pound you typically spend on the emergency response, you would be looking to spend at least £4, both of capital and revenue, on our reset and recovery. Although levelling-up has come in, that still remains a major challenge for local places as we lead through the recovery.

The fourth one is the thing that really keeps me awake at night. Right from the beginning, we talked a lot. I was very clear that the structural issue around the future funding settlement for local government was the highest problem. Here we are a year on, and what we have is some certainty in those other three buckets. The final one is business rates, council tax as a relatively regressive system, and a raft of other high-demand areas that Lorna has already touched on. Across all of the sector, that really, really worries me.

Q5 Olivia Blake: That's very clear. Carol Culley, do you have anything to add?

Carol Culley: One of the things that keeps me awake at night—there is quite a list, so I will keep this short—is the impact of the pandemic coming together with the underlying impact of cuts in local government over the past decade.

We are starting to see a significant impact of the pandemic. In the longer term, as that starts to tail down, those underlying pressures really start to ramp up. We brought forward what was a very difficult financial scenario in the future to now. I agree with Lorna and Martin that it is very much around what next year is going to look like. A worry, as we go into the spending review, is how things like the baseline are going to be treated.

The impact of covid will be with us for a long time yet. I worry about how long it will take for our resource base to recover around some of our commercial income, including things such as rental income and, from Manchester's perspective, the aviation industry. What this has also really revealed, as others have said, is the impact on business rates and council tax, and the fact that those are now funding streams that feel quite out of date for what we need in the future.

Q6 Olivia Blake: I would like to ask something. Obviously, Manchester has the airport, and clearly there has been some discussion about whether a loss of income from investments that provide yield would be recuperated. How much of a risk is that for you at the moment, and how worried are you about having the commercial investment that you have in Manchester?



Carol Culley: On income, I would start by saying it is very much the right thing for Manchester and the GM authorities to be doing. The airport has been in local authority ownership since the 1980s, so this is not a new commercial venture. It is very important to the region—I think it is about 20,000 indirect jobs and 10,000 jobs around the airport. I just wanted to make that point before we start. It is strategically very important. It has a significant impact on us. There is the dividend income that we receive, and there is the rental income from the properties in the airport. There are basic things such as the airport not being eligible for any support around business rates relief, so we are still having to pay the airport.

We are quite prudent, so the impact is not this financial year. I worry sometimes that commercial investments are seen as good or bad, and I worry about the lack of recognition on the back of that for commercial activities that local authorities have. We budget for most of that income year in arrears. We have budgeted in terms of what you would expect as a normal economic shock, but I would say that, across a lot of the commercial activities that local authorities are undertaking, a pandemic is not a normal economic shock. This is something that could not have reasonably been planned for or fully mitigated in the budget and reserves.

Q7 **Olivia Blake:** Before I move on to CIPFA and Rob Whiteman, obviously there has been a huge impact. What kind of impact is that having on the cuts that you are having to make to services and what are you picking up more generally?

Chair: Reverse order or the same order, Ms Blake?

Olivia Blake: Same order.

Lorna Baxter: When we understood the position, back in May last year, and it became clear that we, as local authorities, would have to share some of the burden of the costs and losses going forward, linked to the fact that commercial income was not included in the lost sales, fees and charges scheme, I ensured that we set revised budgets for both the county council and the district council. We had to look at in-year savings, to ensure that we had a buffer and that we had enough funding after the Government grants and so on.

We aimed to minimise the impact in terms of services for the current financial year. Obviously, a lot of things got delayed, including implementing new services and safety programmes, which as a council had an effect in terms of being able to deliver. We tried to minimise the impact for services for the current financial year. Going into '21-22, again we tried to minimise that impact, although a lot of it depends on the financial state of the authorities going into the pandemic.

If you look from the county perspective, those councils that were more financially vulnerable have found it much more difficult to respond to the situation. Therefore, they are probably more likely to be seeing impact in terms of service delivery going forward than councils that may well have had more reserves or been more financially resilient. With the councils



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that I am a section 151 officer for, we have tried to minimise the impact on services, but that is not consistent across all authorities. I think that is linked to the sustainability of authorities going into the covid situation.

Martin Reeves: I will start where Lorna finished off; I am sure Rob will touch on this from CIPFA's perspective. There is no doubt that across the sector, thinking about some of the work that all the professional bodies and the Local Government Association have done through the last year, that the likely impacts, where this is going to fall, depend and vary according to geography and the type of local authority.

I will say two quick things, which I think are helpful. The first is that we have seen—we went into the pandemic with this anyway—significant increases in complexity and type of demand across our children's services and adult social care. That is high cost, highly volatile and very high demand. That is going to be more so going forward and therefore that doesn't give you a lot of wriggle room.

Herein lies the irony, as a result of what we know and what we have learned over the last year. The foundations for recovery are in those cultural, leisure and often discretionary non-compulsory services. They are the things that are connecting our communities to each other and giving them their identity back. I would argue that they are a significant part of the UK's recovery. This is the area, alongside some of the economic regeneration, job support and back-to-work schemes that, if we are not careful, will inevitably suffer as a result of us having to contract our budget.

The final point, which may or may not be of help in this system, is that what we are seeing from Government to try and alleviate that is a high level of capitalisation, prioritised through the levelling-up fund and the UK community recovery fund. The challenge is a revenue capacity issue, to lock all these funding streams together, for the reasons I have just highlighted, in all our places. Unless that is addressed, we will end up with a bigger gap between capitalisation, for the right reasons, and a lack of that capacity service support in localities closest to where the communities need it. That, going back to your first question, worries me equally as much as the future funding settlement.

Q8 **Olivia Blake:** I wonder whether you are concerned about either reserves or the ability of councils to do needs assessments at the moment, for their post-covid populations?

Martin Reeves: Is the question about whether we will need to think about needs analysis around rationing in the expenditure that we have, even across those high need areas? Was that the question?

Olivia Blake: Yes, basically.

Martin Reeves: There is absolutely no doubt that as you see what has been archetypically in our sector in the past called the hidden harm of some of these high-need, high-demand services as a result of covid, and



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the structural inequalities coming into the pandemic that have been widened and deepened, this is not hidden harm.

This is in clear, plain sight now, so there is an inevitability that unless we close the revenue gap, as witnesses have already said, in the medium term, what we are inevitably going to be faced with is political decisions locally in order to go for the highest levels of vulnerability. But the evidence is very clear and compelling, even within the in-year, that some of those inequalities become wider and deeper. Therefore on the categorisation for need, even traditionally set need, that benchmark unfortunately now is much wider and higher for us to try and meet the need that we have in our places, so I think there is an inevitability to this unless we get the right kind of revenues.

Q9 Olivia Blake: Thank you. Carol Culley, do you have anything to add?

Carol Culley: Very briefly, this has been the hardest—I guess it would be in a pandemic—budget cycle that we have had to deal with. We took in-year measures around the use of reserves—freezing posts and things—of around £20 million during the financial year. The growth impact of the pandemic in Manchester was £160 million before any Government support—if I say it quickly, it doesn't sound such a big number.

As we went into the autumn with the budget process, it was quite hard to gauge what the actual level of support would be, so we had to do a range of planning scenarios. We have a programme of £41.7 million of cuts to deliver in the next financial year, and a remaining gap in the year after. That includes some quite deep cuts in our support services. We have tried to protect the frontline where possible.

When we look at next year, the estimated ongoing demand pressures from covid—again, in Manchester—are around £25 million for homelessness, adult social care and children's services. The combined impact across all of our revenue sources—our collection fund base, fees and charges and commercial—is over £100 million. They are quite scary numbers, which are mitigated to a certain degree, but not fully. So we are having to plan on that.

I did a quick straw poll of colleagues in core cities in Greater Manchester before today, and I think it is a fairly similar picture. As Lorna has said, to a certain extent it also depends on the resilience of your balance sheet, and your position as you went into this as well. Across the eight core cities, the average level of budget cut next year is around £32 million, with a range of £4 million up to nearer the £80 million mark, and across the 10 GM authorities we are looking at an average of about £15 million across those as well.

Q10 Olivia Blake: In terms of the Government support that you have already received, what works best and what didn't work?

Carol Culley: What has worked well was the relationship with the MHCLG and the movement from quick support to evidence-based returns and

ongoing tranches of support. What works less well is probably co-ordination across all Government Departments.

I would not underestimate the volume of work associated with the various funding streams from the Department of Health, BEIS and DWP. The bit I struggled with the most for that period during the summer was trying to look at what the next year's financial position was going to look like and plan for that, plus understand what the impact of the pandemic and what the future Government support might look like. Once we knew there were likely to be things such as risk shares and the spreading of the collection fund deficit, it was really hard to quantify what that meant in practice.

Finally, I would reiterate the point that I think everybody would press for costs and income loss to be reimbursed, and I would reiterate the concerns around what is deemed as commercial activity and the lack of recognition for that. I appreciate I went through that really quickly. I was just trying to give the headlines.

- Q11 **Olivia Blake:** That is really helpful. Does Mr Reeves want to comment on what went well and what didn't go well? Is there anything different that needs raising?

Lorna Baxter: Can I pick up something that did not work quite so well from my perspective? I completely agree with the points that Carol made about what did work well. It's in terms of how some aspects of service are delivered. You will see that for leisure services.

As an example, if you have that in-house, that will be recovered through sales, fees and charges, but if it is through a contract, that is additional expenditure cost that might not be recovered in full from grant. But there are other examples in counties where you have arm's length companies delivering things such as school meals. That is a similar position, where if it were in-house you would be able to recover the lost income through sales, fees and charges, but not if it was through a trading organisation that was delivering the same sort of core service. That bit has not worked quite as effectively, because of the different delivery models.

- Q12 **Olivia Blake:** I am from Sheffield and we have had something similar with leisure facilities, which I am sure you have heard about. Mr Reeves?

Martin Reeves: Nothing to add further to that, except to say that the NAO Report has probably landed the main point. MHCLG's conversations with us were pretty much open. It was challenging in the first period, but it was for everybody. The ability to then link up and in various grants and support through DHSC was not as good. That has been highlighted by the Report, and we and Government need to learn from that.

The second bit, which I don't think has been specifically mentioned, is the proliferation of business grants, often in and then out through us administering them, which was a huge effort. There were far too many, in the sense that what was happening brought quite a lot of confusion, and we made it clear to the Government early on with our business community that it just needed to be rationalised.

There was big latitude in terms of how quickly we were trying to move at both national and local level, but the ability for us to use much more freedom and flexibility between those various parts would have allowed us greater impact, in my view—certainly in the first wave of the pandemic. The levels of bureaucracy and covering to get those administered and reduce confusion could have been improved.

Q13 Olivia Blake: Thank you, that is useful. I will turn to Mr Whiteman now and ask what sense CIPFA have of how many councils are currently at risk of financial failure. Also, what do you know and what is your view of the capitalisation directions—over £50 million now, I think nearly £60 million since the Report was published?

Rob Whiteman: Thank you, Ms Blake, and good afternoon. The NAO Report is very welcome and highlights that perhaps 33% of councils are at some form of medium or high risk. CIPFA's resilience index thinks that around 10% of councils are at particularly high risk. You asked about the cliff edge earlier on; not all councils are at the cliff edge, but all councils are enjoying heady views and trying to keep away from that cliff edge. At the moment, assessing resilience and sustainability for the medium term is obviously difficult for any organisation—all public bodies and all companies are living through the uncertainty of covid—but there are some particular issues that make it more uncertain for local authorities.

My colleagues have mentioned medium-term uncertainty. Did we understand enough of the baseline of the pressures that existed within the sector before covid, and do we understand enough about what covid has done? Before covid, councils had lost about 46% of Government grant in a decade and were spending 26% less in real terms, and then along comes covid, which in a way misshapes all that into a temporary set of services and funding sources. We assume that it will not go back to the old shape, because some of what covid has done will last and there probably will be some permanent effect on income levels and on the collection fund and the ability to raise taxes.

At the same time, some services, which perhaps were Cinderella services before and which councils could perhaps take cuts out of, have been misshaped by covid and people are using them and enjoying them more. Have we ever been in open spaces and parks as much? As well as the real service pressures that Mr Reeves raised, for example, around children's services and adult services, there will be higher costs going into the medium term. Councils are very uncertain of where their medium-term resources are coming from. Although CLG have done well, as the NAO Report says, through the DELTA returns process to identify the pressures, the NAO Report shows a gap of £600 million of income and cost pressures that were not funded. I think the sector would argue that there is not an effective measure to keep that gap measured on an ongoing basis.

If you think about the present set of council tax bills going out, councils have on average put their council tax up by 4.3%. The Government assumed in their announcements on council resources that council tax levels would go up by 4.99%. Actually, that has added a gap of another



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£200 million to the sector's finances since the NAO Report was published just a few days ago, so this mechanism where the Government say, "We think councils can push up their council tax and they've got spending power," isn't really a measure of councils' services. We see through the survey carried out for the NAO Report that a large number of councils—94% of single-tier authorities and 81% of districts—expect there to be service cuts in order to balance the books. We probably don't understand enough of what the implications of that are. The NAO Report's recommendation that that needs to be understood for future years' settlements is correct.

You asked about capitalisation, Ms Blake. A number of councils—maybe up to 12; four or five have been announced publicly, and probably another four or five are in active discussions with the Department at the moment—can't balance their books using normal accounting treatment; in other words, they can't balance their revenue budget. There is a legal requirement for councils to balance their budget, so they are asking the Department for a capitalisation directive in order to capitalise some of that revenue gap. That is obviously a very short-term measure. You don't usually borrow money or sell assets to fund day-to-day services.

What the Government are negotiating with those councils is that, if they allow this temporary measure of a capitalisation order, have the councils then got plans to recover their finances for the medium term? What I see in those councils is that, on the whole, the Government would prefer that they sell assets rather than borrow in order to fund the capitalisation order, and that they can demonstrate that they will make service reductions and balance the books for the medium term. I expect that there will be a few more announced than those already public, but I hope that gives you a flavour of what we see at the moment.

Q14 Olivia Blake: So more to come potentially. Mr Whiteman, you might not feel comfortable answering this question, so please feel free to direct it to someone else. Do you think, given the local tax rises that we are going to be seeing, that there is going to be a difference between citizens' expectations of services and the delivery of services, in terms of cuts?

Rob Whiteman: That is a real concern for the sector. First of all—my colleagues will probably want to comment on this—councils have found raising taxes by an average of 4.3% difficult. On the one hand, you have to balance the books and protect services as far as possible, but of course councils recognise that households within their communities are struggling at the moment, living with the effects of covid on the economy. Councils have thought long and hard about pushing up council tax levels. They need the resources, but they recognise that hard-pressed households will find it difficult to pay tax in many cases at the moment.

The answer that I gave earlier, Ms Blake, is that if people are paying more in council tax—we have seen two regions of the country, the north-east and the south-west, where average band D council tax has now gone above £2,000—possibly everybody will want to see what they are getting for that bill. So with some of the things that have been cut the pressure is



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to say, "Actually, I want my libraries back. I want my leisure centres open again. I don't want parks to be cut anymore." I think everybody recognises that there is probably a real backlog of demand for things like children's services as we come out of lockdown, but it's very possible that everybody will have higher expectations about what they want from their council because the bills have gone up.

Q15 Olivia Blake: Can I finally ask what CIPFA's view is of what the long term should be? Also to council colleagues, if there was one thing that they could fix with Government finance, what would that be?

Rob Whiteman: Before covid, local government finance reform looked like it was going to be higher retention of business rates linked to a fair funding review, in order to redistribute the additional retained business rates. That is probably a busted flush now; it does not look like an anchor for sustainable local government finance. I think everybody, including CIPFA, appreciates that we are in the middle of a crisis and the Government cannot make long-term reform at the moment that will last several decades. However, every few decades, only the Government can change the kit, and the sources of funding for local government were a bit broken before covid, but they are even more broken now.

The one thing we would ask is that it is reasonable for councils to understand not only where the money will come from, but the balance that Government are going to give to general funding and distribution against pots and specific funds. The Government, at the moment, are announcing quite a lot of bids and funding mechanisms. There is an overhead to that for councils, of course, but also—without getting into the politics of it, which I wouldn't dare do—we have seen quite a lot of controversy around whether the money is getting to the right places. For distribution to be respected, people have to think it is fair and based according to need, particularly on things like levelling up. I think CIPFA does have concerns that the Department and the Government need to give an intention of how much of the future funding base is going to be via these pots and bids, and how much of it is going to be through general resource allocation or spending power, because this preponderance of bids is making life even more uncertain.

Lorna Baxter: If it is one thing, one thing I would say is the quantum. The amount of money that local government gets has to be the key point, because distribution mechanisms are only going to be fair if there is enough money in the first place. One of the things that is happening at the moment is the consultation on the new homes bonus, which is obviously just one part of local government finance. There is a question, for example, about the distribution between counties and districts in two-tier areas, where you currently have the 80% going to districts and 20% to counties.

Now, the view in terms of the allocation of that share might be very different if there were sufficient funding in local government overall, but the way that it stands at the moment—because everybody is fighting for all the resources they can get—you are not going to get any change in



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approach, in terms of thinking about “What’s the real weight of the bonus? What’s it trying to deliver?” to give a real view about what it helps you be allocated. Unless the quantum is right in the first place, I think everything else just means that you get skewed responses.

Q16 Olivia Blake: To confirm, do you think that the sector is substantially underfunded, and does the pie need to be bigger?

Lorna Baxter: Yes.

Olivia Blake: Mr Reeves?

Martin Reeves: The issue is that there needs to be sufficient funding, and a lot of work has been done on that in terms of being able to meet the demands locally even coming into the pandemic, added to what we know since. It needs to be certain and sustainable over at least a three-year period, because even if it is lower and less sufficient than we would like as a sector, that is certainty for planning purposes. Matching leaving other support is really critical for medium-term planning; again, that is picked up in the NAO Report.

On flexibility, which Mr Whiteman talked about, there is this notion that it is no good understanding a series of vertical pots, as well meaning as they might be, and even as big as they might be, because it is in the places horizontally between those pots where the value is accrued for local communities, so actually about the ability to trust. What we have seen over the past year is that the ability to locally deliver and glue those things, in the eyes of the resident, has probably been at its best in those local places, so alongside all those things, I would ask for flexibility.

I cannot resist coming back on a point Rob made earlier. He is absolutely right that expectations are higher, as we have seen quite a profound and compound impact of increased taxation locally on families that have been drawn down into even higher levels of financial challenge. I think that is right, and their expectations will change. On a more sunny note, if anything positive has come out of this horrendous pandemic, it is the reconnection with places and local amenities and the importance of those, which you would argue raises expectations, and yes, it does.

Secondly, we are getting a whole series of new, renewed conversations. Think about what local authorities with community voluntary groups have done around mobilisation on shielding, personal protective equipment and food banks. That is at least bringing a wider understanding of what the sector does. It might be that we did not get a clap on a Thursday night in the same way, but increasingly, through social care eyes, we started to break through what is—I have spoken on this to this Committee and others over the years—an impenetrable understanding of the value that local government gives to the local taxpayer. I think that has started to come out. Maybe I am viewing it too optimistically, but I think there is something to go after on that.

Olivia Blake: Thank you for everyone’s efforts in local government. I am sure all the Committee would agree with that. Finally, Ms Culley.



Carol Culley: I thought you were going to miss me out; sorry for waving my hand around. There are two things I want to add to that. I think most of it has been covered. One is just to lodge the thought in everybody's mind that not having certainty on '22-23 funding until December is going to be incredibly difficult to manage. The second one is on social care, both the longer-term solution for social care and some of the here and now, in terms of what will happen to the funding to facilitate discharges from the acute system. That is a key bit of the recovery planning for the country, so understanding what will happen to that funding will be very important for us.

Olivia Blake: Thank you.

Chair: Thank you very much for now, Ms Blake. I turn to Sir Geoffrey Clifton-Brown MP.

Q17 **Sir Geoffrey Clifton-Brown:** Thank you, Chair. The first question I would like to ask is about the different bases of the formula for allocating Government funding. Perhaps I will go to Martin Reeves first for a comment on that. Do you think that, with the relative needs formula, the Government have now got a satisfactory formula if they were to allocate any future funding to local government over and above the normal allocation formula?

Martin Reeves: My view on this, and SOLACE's view, is that it is certainly not perfect. Some improvements regarding the allocation formula are being considered. What we need to understand, and what probably quite rightly has dominated the Report and the discussion so far, is not only need, deprivation and inequality, but also the way in which services need to be delivered against not only existing need but the latent and actually really highly express complex need coming through. I would find it impossible to criticise any Government for not being able to keep up with the complexity and speed with which that is being completely changed in front of our very eyes, so I think I need to be balanced in my critique. It is not there. We need to think much more carefully, in my view—again, Mr Whiteman picked up on this earlier—about the real leverage and understanding of how need can be met locally, both in terms of revenue, through the actual grants system, but also capital.

All bets are off. This is, in my view, a fundamental, seismic shift of need and demand and the provision of well-funded local services going forward. Anything that was problematic around formula, distribution, fairness and the equity of that spend coming into the pandemic has been absolutely exacerbated and made more complex. The point here is that this is about co-design. There is a role for all the Treasury's organisations and for CIPFA, SOLACE and local authorities to co-design with Treasury, MHCLG and other Government Departments the way in which we can reimagine all the foundation stones not only of formula need and distribution but actually what are regressive pillars of local government funding. We have already mentioned business rates and council tax, which, in my view—I am on the record saying this—were fundamentally flawed entering the

pandemic, and you could drive a coach and horses through them now as a result of what we have seen.

- Q18 Sir Geoffrey Clifton-Brown:** Let us stick with that last comment. The NAO makes it quite clear in paragraph 4.2 that your funding base is reducing. It states: "As of December 2020...business rates...would be £1.6 billion lower" and "Council tax would be £1.3 billion lower." It looks as though the collection base was shrinking before the pandemic, and the pandemic has no doubt exacerbated that. Are we going to need a rewrite of the formula for distributing money to local authorities? What is your view?

Martin Reeves: I have been arguing with SOLACE for some time that we need a fundamental reset. Yes is the answer, but linked to a wholesale review of the medium to long-term funding of all our public services, particularly local government. You have picked the obvious ones that empirically come out of the NAO Report around structural shifts that we already see in our collection base on those two major taxation levels.

Mr Whiteman and others have picked up on the issue of a fundamental restructuring of many other income levels. Local government—there are different views on this—has used those sources to deliver and support its overall base in services as a result of 10 years of austerity and reduced central Government funding. They have been equally ripped apart. Are those enduring shifts, or will they return to pre-pandemic levels, or somewhere near that, so that we can model more comprehensively? I would argue that even if they go back to pre-pandemic income levels, we still need a radical reimagining of how we fund local government, both in the formula of distribution and the basis on which that money accrues.

- Q19 Sir Geoffrey Clifton-Brown:** Is it likely that they will go back to pre-pandemic levels, given that some of them were reducing before the pandemic? On business rates, for example, there were shifts in shopping patterns on the high street. Is it conceivable that business rates will go back to anywhere normal after the pandemic?

Martin Reeves: As a chief executive who works a lot with statutory section 151 officers, I am conscious that they would say, "Prudence". Going forward, to assume modelling of money in, you should presume that we are not going to get back to those levels. Why? You have absolutely picked the point: because entering the pandemic, even before some of these challenges, we were seeing really big challenges of those assumptions.

One that is really interesting, and that could bounce back depending on modal shift—this is across most local authority bases—is car parking income, both central and suburban, in quite a significant number of areas. In Coventry, for example, we see up to 40% or 50% of pre-pandemic levels. It is slowly coming back, but even with modal shift and the challenges of moving back to some kind of new normal, you would still have to have a prudent set of assumptions for the medium-term about car



parking income not going back to its previous levels, although I would argue that that is one that has a chance of bouncing back.

If you then look at business rates, we always said of this sector—even of those who were pooling and working together very hard in high-growth areas like Coventry and the west midlands—that every pound of business rates is a really hard-earned pound. With the retail shift to online and a raft of other business challenges and frailties, we have learned that that is absolutely a busted flush as a system of taxation.

Q20 Sir Geoffrey Clifton-Brown: Thank you very much. Mr Whiteman, may I ask you to address some of those issues? Do you agree that the distribution formula for local government will need a wholesale rethink in view of the sorts of factors that we have been discussing?

Rob Whiteman: I think it will, Sir Geoffrey, for reasons that Martin Reeves just set out. Council tax and business rates are very collectible taxes; properties do not run away. Compared with many other taxes, they are very collectible, and local government has a very good track record of collecting them at a very high rate. There is a “but” coming, however.

The business rate base was already under pressure before covid, with the move to online shopping and all sorts of other factors, but council tax bases will also probably be quite radically affected by covid. We see a change to working patterns, town centres, the market for flats and all sorts of other developments taking place, so while these are collectable taxes, less council tax and less business rates will be collected because of these economic circumstances.

The big thing, of course, comes around social care. If you take out adults’ and children’s services, the £31 billion collected in council tax may diminish, but it is a good base for funding the rest of local government services. What it is not a base for is paying for adult social care and children’s services, and the ability of business rates and council tax to fund adult social care is going to be even more under pressure. I do not know what the Government will do, ultimately. Will there be an insurance scheme? Will the Government—

Chair: Okay. We can speculate, but—

Rob Whiteman: Who knows? But adult social care, for me, is absolutely the crucial issue. Until we know the answer on adult social care, it is absolutely clear that the local government finance system does not work.

Q21 Sir Geoffrey Clifton-Brown: I suspect that that will be a subject for a future hearing. We could go on for a very long time on the different systems for funding adult, and indeed children’s, social care. Can I ask you one other thing in relation to the formula? It has not been mentioned in this hearing at all today, but the NAO Report picks it up, and that is the 6.9% increase in population, which of course affects some authorities much more than others. Do you feel the current formula picks that up and therefore gives a fair distribution to those authorities that are experiencing quite a high rate of population increase?



Rob Whiteman: Probably not. Of course there is a census taking place at the moment, and we will get a one-in-10-year view of how well the statisticians have worked each year at adjusting population figures, and hopefully we will get a very accurate census picture from that. The Government did introduce tailored mechanisms of distributing the emergency funding, which were welcome. They did allow for deprivation and density, because it was recognised that those areas were particularly vulnerable to covid, but while that is good and everyone is grateful for it, population growth and changes in demography are probably not adequately reflected in the way that spending power is used as a means of assessing local authority financial resilience.

Q22 **Sir Geoffrey Clifton-Brown:** The NAO Report picks up what you said to the Department. I am referring to paragraph 2.42 on page 38. Very briefly, "CIPFA changed its guidance to say that section 151 officers should communicate with the Department in advance of issuing a section 114 notice." Surely that is pretty common-sense, isn't it? It should automatically happen. After all, issuing a 114 notice is a pretty serious thing.

Rob Whiteman: Yes. Of course, a 114 notice is the section 151 officer making public that they do not think that the local authority is taking sufficient action to balance the books. Because of covid, we did adjust that guidance; clearly, the council did not have all the information that it needed to assess its financial position, because the Government were in the process of announcing temporary measures. In truth, I would advise even in normal times that people talk to the Government about issuing a 114 notice, but there is not a legal requirement to do so.

During the pandemic, I think we all wanted to avoid 114 notices being issued purely because of covid. Of course, a 114 notice freezes expenditure for 21 days before there is a meeting of full council to balance the books. We did not really want to see that happening while local councils were putting in programmes for shielding and other measures. Because of the emergency nature of what was happening, we all tried very hard to avoid 114 notices during the management of the pandemic.

Q23 **Sir Geoffrey Clifton-Brown:** I want to bring in others in a minute, but can I talk to you about reserves? I don't want to go over the ground that Ms Blake went over on capitalisation, but surely reserves are a pretty good way for the Department to monitor where an authority is beginning to get into trouble. After all, Northamptonshire was down to reserves of about 4.6. Can't the Department get a pretty good idea of where authorities are getting into trouble from the level of their allocated, unallocated and earmarked reserves?

Rob Whiteman: Reserves are a very good measure, but there are other things to take into account as well. For example, before the pandemic, having other sources of income was a good thing for one's financial resilience, but because those other sources of income have dropped, the councils that relied on income are now even more vulnerable than they were before. It has sort of reversed the position.



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Clearly, councils are large financial institutions, and they need to have adequate reserves in order not to have to take emergency measures and get themselves into a 114 position. CIPFA's resilience index, which is public, Sir Geoffrey, shows the level of relative reserves for all councils. We think that is probably the best single measure, notwithstanding the fact that there are other things that the Department will want to look at as well.

Q24 Sir Geoffrey Clifton-Brown: Thank you very much. That is very helpful. Can I go to you, Ms Lorna Baxter? From your various conversations with various authorities, where do you think authorities are going to be in balancing their books? Are they largely going to rely on cutting reserves, or are they going to be cutting services? Where does the balance between the two lie?

Lorna Baxter: Are you talking about the current financial year or moving into 2021-22, because I think there is a different answer?

Sir Geoffrey Clifton-Brown: Let's deal with both. My question was really intended to go forward, but of course we don't know where we are in 2021-22, so let's just stick with the current one, and then talk about the next one.

Lorna Baxter: Most authorities in the counties and districts I am aware of will be using some level of reserves to help balance the budget in 2020-21. There will be a mixture of the use of reserves and other measures, which I referred to earlier. The council that I am a section 151 officer for has set a revised budget and delivered in-year savings. We will also be using some reserves for Cherwell District Council, for example, so I think reserves will be used. The challenge that we obviously have going forward is that we hold general balances for unplanned and unforeseen events and circumstances. Although we may use those unearmarked reserves, we need to ensure that they are brought up to an adequate position, so that in situations where you might need to draw on them, they are sufficient.

Yes, I think they will be used, but there is then the ongoing issue of making sure you can put those figures back in. For 2021-22, as you say, it is not quite clear yet, but there is a very clear steer that you should not use reserves to balance a budget if you can help it, because it is obviously not sustainable funding; it is a one-off, and it doesn't solve the ongoing position that you may be in for balancing a budget. I think quite a few authorities will be using reserves in 2021-22 to get to that balanced position. Then, as you say, we are unclear about what the costs will be in 2021-22, what the lost income will be, how much further funding, if any, we will get from Government, and therefore whether councils will have to use reserves at the end of 2021-22 to get to a further balanced position. I think we will see a lot more use of reserves over this year and next year.

Q25 Sir Geoffrey Clifton-Brown: Ms Carol Culley, can I ask you much the same question? Going back to Martin Reeves' comment about need, authorities in Greater Manchester, and particularly your own authority, will have a real problem balancing their books next year, will they not?



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What will they do? Will they cut services or will they run down their reserves?

Carol Culley: I think there will be real challenges across the country in balancing the budgets next year, to be honest. It will vary with the position of each local authority. I think it will be a combination of the use of reserves and having to make cuts in services. From my understanding, that is what a lot of local authorities are looking at. It is difficult to be too definitive at this stage, because there is so much uncertainty in 2021-22, let alone about what the funding picture might look like for 2022-23.

The other point that I would make about reserves is that it is not only about the differentiation between the unearmarked, which tends to be quite a small proportion, and the earmarked, which will need to be replenished at some stage in the future, but about local authorities' ability to replenish those reserves during this timescale. In GM, we are members of the 100% business rates pilot, and some of the local authorities have used any additional income in reserve to smooth over a number of years, and that has helped to manage peaks and troughs in funding pressures. The ability to do that will be much more constrained in the future.

Q26 **Sir Geoffrey Clifton-Brown:** That is a really helpful answer. As I understand it—I am still a little confused—we have certainty over funding until July, but it may be until the expenditure statement in the autumn. We were on three-year budgets; are you talking to the Department about how they can produce greater certainty for local authorities going forward? This one-year funding must be very difficult for treasurers to budget for.

Carol Culley: It is incredibly difficult. We have had our finance settlement, which covers the 2021-22 financial year, along with the indication of the covid-related support for the first quarter of that year. In terms of 2021-22, our budgets are set and our cuts are planned. The challenge we face is that in the summer, we need to start planning for the following financial year, 2022-23. As that is a new spending review period, we do not know what the quantum and distribution of that funding will be.

You asked whether the funding formula was fit for purpose. It is important to differentiate between the medium and longer term, where I don't think it is fit for purpose, because so much has changed, as others have outlined. I don't think we have time to re-look at that for 2022-23. There is a balance between needing certainty to plan for 2022-23 and having a sustainable longer-term solution in place.

Q27 **Sir Geoffrey Clifton-Brown:** One thing we have not discussed today is the revaluations of both business rates and council tax. They are both widely out of date, and presumably that will all have to be wrapped up in the future funding review. Is that your view?

Carol Culley: Yes, and my worry about things such as business rates revaluations and resets is that while we have a business rates system that is creaking to say the least, any fix to it will cause a shift of resources



around the country, and will add another level of volatility to what we are facing in future years.

- Q28 **Sir Geoffrey Clifton-Brown:** Last question. I will refer this to all of you, but please give very brief answers, or I shall get into trouble with the Chair. This Committee is obviously very interested in and concerned about accountability for public funds, particularly this money being handed out over the covid period. We have had the Taylor review on local auditing and the attempt to strengthen that regime, and the Government are looking at its recommendations. Do you have a view on how we strengthen the local auditing regime, so that we can really see that the taxpayer has got value for money for all this expenditure during covid? Let's stick with you, Ms Culley.

Carol Culley: Maintaining the right balance and capacity for internal assurance and review is important. Good governance in local authorities is not just around internal audit, but internal audit is an important component of it. Some of our funding streams have very onerous requirements alongside them, which is diverting some of our capacity and activity into very specific returns to specific funding streams. Linked to the Redmond review, there are also issues with capacity in the external audit market, so having that longer-term view on assurance in local authorities will be important.

- Q29 **Sir Geoffrey Clifton-Brown:** Sorry, you are quite right to correct me; it was the Redmond review, not the Taylor review. Thank you. I will ask you all again, starting with Lorna Baxter. Please don't repeat anything that the previous witness has said, but anything new on the Redmond review and strengthening external auditing would be very helpful for this Committee.

Lorna Baxter: Something around the simplification of accounts, so that the public can understand them. Hopefully, that might be addressed through the additional statement that has been proposed as part of the review. I think that will help. Going back to the point about external auditors having the capacity, knowledge and depth to understand the audits they are undertaking, that has come out as a really key point from the review. It is a slightly different part of the review, but it is a really key point to talk about. You can see the number of audits that have been completed to date for '19-20. I think there are still around 200 that have not been finalised, and we are just about two weeks away from the end of the following financial year. That creates additional capacity issues, in terms of the authorities being able to plan and prepare. That is another key point to pick out from the review.

- Q30 **Sir Geoffrey Clifton-Brown:** Mr Martin Reeves, any comment? In particular, are there enough firms out there with capacity to do this work?

Martin Reeves: We worked with submissions to the Redmond review, and clearly there is not sufficient capacity—it is not resourced. That was picked up clearly within the review. Rather than repeat what has already been said by witnesses and colleagues, one thing I would say—this may be a

recurring theme, certainly for me and SOLACE—is that there needs to be active learning from the pandemic. What I mean by that is that we need to think in local places—this is true up and down the country—of balancing speed, which was incredibly important in terms of business need, with ensuring that anti-fraud processes are in place, along with our own administrative assurance, both internally and externally, and the transparency of communication on how we were getting that money out the door and what is was being used for. You can balance speed, assurance, good governance and administration with outcomes, but that needs to be learned very rapidly, because there will also have been mistakes being made.

We have to be bold enough as a sector to say, “These are areas where maybe we lost some our assurance because of the speed. Where does that sweet spot sit?” Hopefully, we will not be in this febrile environment for years and years to come, but we can learn about how speed and effectiveness and the principles of transparency and openness can come together rather than be mutually exclusive.

Q31 Sir Geoffrey Clifton-Brown: Mr Whiteman, do you have anything to say about the Redmond review and strengthening external auditing?

Rob Whiteman: I think the fear is that things may get worse rather than better, so it is very important that the Department gets on and implements Redmond. I would say two things, if I may. First of all, local authorities are big, complex organisations that carry out complex transactions on regeneration and treasury management. You need the big firms in that market. These are not things for high street auditors—no disrespect to high street auditors that audit SMEs. You need to have very strong technical teams and very strong legal teams. Think of Plymouth City Council—it is in the news because it has taken out an interest rate swap, which a number of us think has been illegal since the Hammersmith and Fulham judgment 30 years ago. You need an auditor with a strong legal department and strong technical expertise to make a ruling on whether that is ultra vires. The big firms are pulling out of the market because fees have gone so low.

The second point I would make is that local public audit is an enhanced form of even company audit, where traditionally the district auditor in old money, yea unto the Victorian era, has been involved in good governance and advising members and statutory officers on good decision making. The drop in fees has seen auditors often reduce themselves to signing off the accounts and not being involved in good governance. There is a fundamental assurance for the taxpayer and the Government if there is a strong local audit service. In a way, that pre-existed the Audit Commission. Sadly, when the Audit Commission—which perhaps turned into other things and a regulator—was abolished, the baby was thrown out with the bathwater and we clearly lost a lot of really good local public audit being involved. If you look at the public interest reports that have been issued on Croydon, Nottingham or Northampton, there is a series of issues around good governance and good decision making. We need auditors up



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and down the country working with statutory officer and leadership teams in order to make sure that there is good local decision making.

I am worried it could get worse rather than better, and I hope the Government act. I am disappointed that the Secretary of State has said that they won't take Sir Tony's central recommendation of creating an office of local audit regulation, because at the moment there are four or five players in this field. The NAO has a role, the FRC has a role, PSAA has a role—and actually that really does need co-ordination in order that we get standardised, high-quality audit treatment. I notice the Treasury or Sir John Kingman, who used to be at the Treasury and led one of the reviews of corporate audit, has voiced disappointment that MHCLG are not taking forward that recommendation. I hope they revisit it, Sir Geoffrey, and think about how best we get co-ordinated, high-quality local audit.

Chair: It is certainly true to say, is it not, Sir Geoffrey, that the Redmond review, in its first inception and the work it did, obviously didn't predict covid, either? It is an interesting challenge that you have laid there, Mr Whiteman. Sir Geoffrey, is that you done?

Sir Geoffrey Clifton-Brown: It is. Thank you, Chair.

Chair: Thank you very much, Sir Geoffrey. I am now going to ask Gareth Bacon MP to come in.

Q32 **Gareth Bacon:** This, of course, has been an unprecedented time for local government as well as everybody else, so my first question, which I would like to aim at Ms Baxter and Ms Culley, is how they feel MHCLG has engaged with the sector throughout the last year.

Lorna Baxter: I think that the engagement has been very, very good. I took on the presidency only in January of this year. Prior to that, the treasurers' society presidents met on a weekly basis, and we are still meeting on a weekly basis, so the engagement has been very, very good. I have been really pleased with that ability to contact individuals and for them to listen to us, in terms of our views.

Carol Culley: I would echo that. I think the engagement has been very positive—both collectively and, where required, at individual local authority level. And I think the information gathering by MHCLG, as part of this, has been very much to inform what needs to happen next and the planning, so I do feel that has been positive.

Q33 **Gareth Bacon:** That's good to hear—that is the good side of the coin, I suppose—but do you feel that there are lessons that other Government Departments could learn about how to engage and interact with local government?

Carol Culley: I think there is something about the co-ordination role across all Departments in central Government. It is quite difficult with the funding grant bid responses—I think we have already alluded to some of the challenges with the Department of Health and Social Care, particularly on the infection control grant, for example, and with the business support

funding. One of my worries is this. As we go into the next stage of the pandemic, it would help us to get something that really joined together all the various sources of funding and perhaps aligned it more closely to the road map recovery planning, rather than announcements from different sources.

Q34 **Gareth Bacon:** Ms Baxter, do you have anything you would like to add to that, in terms of other Government Departments?

Lorna Baxter: No, I think Carol has covered it. I think the engagement with other Departments has not been so good. I don't think they have listened as much to the sector, but I think that is probably because the engagement has not been as good as it has been with MHCLG. There are definitely lessons to be learned.

Q35 **Gareth Bacon:** It has been contended in certain quarters that the messaging coming out of MHCLG at the beginning of the pandemic was that all covid-related expenses would be covered in full by the Government, and as we heard at the beginning of this meeting, it hasn't quite reached that level. Was that something that you heard at the time? Did you believe that? Have you proceeded through the last year in the belief that MHCLG was going to cover all covid losses?

Lorna Baxter: I think that it is a matter of perception and, as a director of finance, my perception was not that everything would be covered. However, I think some of our councillors would have taken the letters to have meant that all costs and lost income would be covered. I was very clear, very quickly, that actually there was to be some sort of burden sharing between Government and local authorities, and made sure that that was the reflection that I passed back to our councillors—that we needed to take that view rather than assuming that the Government would bail out all the costs and lost income that we would incur.

Q36 **Gareth Bacon:** Do the other witnesses agree with that point, or does anyone have a different view?

Rob Whiteman: I think the language did change, in that the original language of "whatever it takes" changed to language of burden sharing. However, Lorna's point was pretty widespread, in that although the language was, "We will give you whatever it takes," I think people were a little sceptical of that and didn't necessarily budget on that basis. I think that is a learning point for the future, Mr Bacon. In fairness to councils, a lot of elected members were hearing language that probably led to them thinking that they would get more resources than they ultimately got, even though the advice around that often recommended that people kept some scepticism about it. In the future, clearer communication at those initial stages would assist, if we are ever in that position again.

Q37 **Gareth Bacon:** The earlier discussion between Sir Geoffrey and Mr Reeves touched on the process of local government finance reform, which was, or course, under way but the pandemic has thrown a big spanner in the works and slowed it all down. Do you have a view, Mr Whiteman, about the most appropriate time to restart that process?



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Rob Whiteman: I don't think anything is possible easily this year. I assume that—

Q38 **Chair:** When you say "this year", do you mean this calendar year, Mr Whiteman?

Rob Whiteman: Sorry, this calendar year clearly we will still be dealing with the emergency or the aftermath of the emergency. Do you know what? Although everybody is desperate to have certainty and look at real reform, I think people would wait a bit longer for it if it were real, meaningful and radical. We probably do need some evidence now to understand what has happened to business rates and to council tax; the ways in which service delivery is going to be different in future years from this year; and what the Government are going to do on adult social care.

The greatest of all finance reviews, Mr Bacon, was the Layfield report in 1976, which said, first of all, say what local authorities are for, and then you can work out how best they are funded. I still think, in a way, we have never moved beyond that. If local authorities are going to have their present set of services, that would lead us to one set of reforms. In other words, how do you solve the social care problem, as I said in answer to Sir Geoffrey earlier? If local government were to have more responsibilities and we were to see devolution, as is being said is possible in some other parts of government, local government would need more plural funding sources in order to have greater financial resilience.

On the whole, our system of local government funding is very heavily centralised and dependent on a couple of property taxes, whereas in most countries their constitutions divide out nearly all taxes—income tax and sales taxes are divided out between local, federal and national bodies. If we were to have real devolution, local government would need a share of income tax, or VAT or sales taxes.

To some extent, we need to know from Government what local government is for. Is it the present set of services or is that going to change? Then, form following function, do would tweak the present system, keep those property taxes but resolve the social care problem? If local government is going to have more services, it would need other sources of funding. I hope this doesn't happen, but if local government were to have fewer services—say adult social care were nationalised, as is sometimes speculated in the media—council tax would be enough to cover the residual of what is left in local government.

In a way, you have three options. Council tax could cover a residual local government—let's call it a district local government—you could reform adult social care funding for its present set of services, or give it access to income tax if we were to see devolution in the way that devolution has happened in Scotland, Wales and Northern Ireland, where national taxes were assigned. If the Government want to think about that properly, so that there is a clear direction for devolution and how it is funded, I think the sector would wait to get something meaningful.



Chair: That would be quite a radical shift.

Q39 **Gareth Bacon:** It would be. I think we could probably fill up three hours just discussing what you have touched on there, and the nature and meaning of local government—we would have a very good discussion. Unfortunately, I do not have three hours, so I will throw that question to our three local government practitioners to see what their thoughts are on that. When should the process start and what should it encompass? Let us start with Ms Culley.

Carol Culley: I think it is too soon to have a new funding formula or reformed arrangements in place for '22-23. To do that in any meaningful way, MHCLG would need to consult in the spring and early summer on what those proposals might look like. I also think it is too soon to understand what the impact of the pandemic has been on our resource base. As we have touched on earlier, the consequences for business rates and council tax are going to be long term. Some real thought needs to be given to what will happen to the resource base for local government.

It is also too soon to pre-empt the impact on demand-led services and the whole impact of health inequalities across the country. Expectations around local authority services will have changed. We will need to start the planning for this sooner rather than later, but I do not think that it would be possible to have something well thought through for '22-23. I think we would need to take a bit of a step back.

Q40 **Gareth Bacon:** Sure, that is a perfectly reasonable point. To summarise my understanding of what you have just said, things are in too much flux at the moment and there are simply too many moving parts right now. We need a period of greater stability to form a basis of how it should be funded going forward. Is that a reasonable summary of what you have just said?

Carol Culley: Yes, I think that is a reasonable understanding of the impacts.

Q41 **Gareth Bacon:** The same question to Ms Baxter, please.

Lorna Baxter: I would support what Carol Culley has just said. I think it is too soon. The fair funding review has been deferred for three years now. It would be very helpful to say, "This will happen," with a real commitment to making it happen, potentially giving a date, whether that is '24-25, or even the year after. The certainty that it will happen and will not just be rolled forward another year would be very helpful.

Q42 **Gareth Bacon:** I think most in local government would probably agree with that. The other side of that, though, is that until then, it is a question of make do and mend. The certainty that I hear all the time from local government chief executives and finance directors is that they want long-term planning, multi-year settlements and so on, which will become much more difficult to provide while we are waiting for a funding review. Do you agree with that?



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Lorna Baxter: Yes, absolutely, but I think there is a recognition that, given where we are today and over the next year, we just do not know what the demands and the need are going to be over the longer term. There would be some acceptance that over the short-term, there would be make do and mend, as it were, to continue as we are, but with the certainty that over the longer term, something would be put in place.

Q43 **Gareth Bacon:** And the same question to you, Mr Reeves. What are your thoughts on this?

Martin Reeves: In over two decades of working in public services, this is a conversation that I have had more than any other. There have been more near misses on the reform of public finances, and particularly local government, than on anything else, including the vexed but necessary fiscal issues and social policy issues around the funding of adult social care. That is fact. We have had that time and time again—to the threshold, likelihood of reform, nothing radical, and back to where we were, with a very broken system.

Secondly, I agree with everything that has been said: we need a bridge. I am a natural risk taker and I would argue that the system is broken. Therefore, we need to move to radical reform as quickly as possible, for the reasons that this Committee has already heard, including the fact that an instant response and emergency into recovery is tough yards, so you need to really think about some of the resilience going forward.

The bridging of that and the need to use the time properly leads on to my third point. There will hopefully be a three-year settlement, which won't be perfect, but which will ensure that this time the design of the new system, for once and, if not for all, then for an enduring period of time, absolutely meets all the questions we have posed today. It would be worth waiting through an imprecise, imperfect system for that. But my view, SOLACE's view and I think the view of everyone on this call from the local government sector would be that if we find ourselves again making do and mend with some patchwork and just pulling it together because needs must and because of the febrile environment, and we still end up with a regressive system with regard to both business rates and council tax, but also in terms of the overall quantum, then we have not only wasted that time; we have probably gone back even further. I am afraid local communities and local government simply cannot afford for that to happen.

It has been there for a while. Let's bridge it sensibly, but let us get a proper, radical redesign, co-designed with central Government—the Treasury, MHCLG and all those spending Departments—and with local authorities and treasuries, because we want to have those conversations.

Q44 **Gareth Bacon:** Linked to that point—I think that is a reasonable point, and there is quite a lot of consensus among the witnesses, Chair—what lessons would you hope the Government have learned from the pandemic about the role, status and funding of local government? Mr Reeves first, and then I will ask that of all the witnesses because I am interested in



their take.

Martin Reeves: We are seeing some narrative on this, but, notwithstanding the fact that there has been this horrendous pandemic, I would hope for an understanding that the delivery of local solutions against changing and dramatically challenging local need is always best done locally. We always knew that, and the effectiveness of being able to deliver that at its best—it's not just local authorities; it's the whole system; think the vaccination programme, think PPE, think shielding—is maybe nationally enabled and locally and regionally administered in order to deliver that real need locally. I really hope that that is understood.

The second bit is the point I made earlier on. I would hope that there is an understanding—although I'm afraid about the latest perspectives around the levelling-up fund and the UK communities recovery fund, which is a highly competitive environment—that we should move towards stopping the vertical, competitive pots, as seductive as they might appear. All that does is drain the very little capacity that we have anyway in local authorities to compete against it. It is not zero sum, or at least it shouldn't be, in terms of the UK recovery for our great places up and down the country.

If nothing else, local government and local systems leadership is about how we can think much more creatively in between those boxes and glue it locally. I hope the Government has seen throughout this pandemic that we can learn rapidly from it as we go forward into what will be a very challenging recovery.

Q45 **Gareth Bacon:** Ms Baxter, what are your thoughts on that?

Lorna Baxter: I would support that. I think the adaptability and flexibility that local government has shown as a response to the pandemic has been phenomenal. That is something that, hopefully, will be seen by Government going forward and will be used as a way to help ensure that local authorities are the ones that deliver those local key services. I hope they use that as evidence.

From my perspective, being responsible for a county and a district, it has shown the differences between the tiers of government. Where there have been issues around distributing grant or determining which services are delivered by which function, I wonder whether the Government might use this as a way to understand whether there is again an opportunity to look at the two-tier system, where there is one.

Q46 **Gareth Bacon:** With a view to radically reforming that?

Lorna Baxter: I think they should use the evidence of how things have been delivered. I think it is more effective as a single system.

Q47 **Gareth Bacon:** Thank you for that—I tempted you to that piece of controversy. Ms Culley, what are your thoughts?

Carol Culley: There are three lessons for me. One is around the ability of local government to step up and deliver, as Martin and Lorna have said.



The second one would be to build on the positive engagement that we have had with MHCLG and look at how that could be co-ordinated across Government Departments. The third one—it's always easy to judge things with hindsight—would be how we marshal the financial response around pandemic planning in the first stage of the recovery planning. I fully agree with all the comments that have been made about bidding processes and vertical pots not necessarily being the best way to do some of that.

Rob Whiteman: I think local leadership has been enhanced by the pandemic. I think the Government has more respect for local political and managerial leadership than it did before; that has definitely been enhanced. I think councils often feel closer to their communities. Although these have been really difficult events, councils have moved heaven and earth to engage with people, get messages across and understand things locally, and my colleagues made points earlier about the sector's ability to adapt.

There is a real learning point here about joining things up. There are usually barriers that get in the way—data protection, funding, ring fences and all sorts of other things. Because we have been in a crisis, Mr Bacon, those things got set to one side, and actually local working and local leadership and service delivery have been enhanced because we have been in an emergency. In a way, could we be in an emergency all the time and use that as a means of driving better productivity in the local state?

I know this is a real accountant's point, but the UK is quite good at technical productivity—getting more widgets for the same amount of input—in its public service. We publish something called the performance tracker with the Institute for Government, which looks at different Government Departments' spending pots. The UK is quite good at technical productivity—trying to get better procurement and better outputs. It is pretty poor at allocative productivity—spending money in the right place in order to get value for money overall. Local leadership, the role of local government, getting the systems to work with each other and getting local services to break down the barriers of the local state aid allocative productivity—spending money in the right place to get prevention and better value for money overall. I really hope that we keep that lesson and take it forward in the design of a new system.

Q48 **Mr Holden:** This is to Mr Whiteman and then to anyone else who has any comments. Mr Whiteman, you really pushed on this allocative efficiency point just then, and I think it is a really good point to make. How quickly do you think local government is going to be able to adapt to the new circumstances in order to deliver allocative efficiency? It is probably quite different now from how it was before the pandemic.

Rob Whiteman: In a way, I think that if you give more responsibility to organisations, it improves their capability to respond. The capacity and the leadership that organisations can give improves the more responsibility you give them. For Whitehall Departments, the argument that is often used against allocative efficiency—they want central control, and the ability to put money through ring-fenced pots and control everything from



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the centre—is that they think there isn't local leadership that they can trust to join this money together and have allocative efficiency. I think, Mr Holden, that covid has shown that there is good local leadership, and that if you give responsibility, that leadership will improve.

Q49 Mr Holden: We have seen a lot of staff working from home through this crisis. Do you think that is a model for councils that we should look at? I would be interested to hear the thoughts of local government on that. I will come to Mr Whiteman at the end, but I will take Ms Baxter first. Do you think that is something we should look at more broadly?

Lorna Baxter: Yes, I agree—I have been working at home for the last year—but I think there has got to be a hybrid approach. There are some things that just don't work quite as well remotely as they do in a room where you are able to collaborate, discuss and gain ideas—those sorts of things. Certainly, moving forward, it is a good approach.

Linked to that, the ability to have committee meetings remotely has been very successful. We have certainly seen much more engagement with the public, in terms of attending committee meetings and in terms of members being able to manage their personal life and their council priorities. I would like to see that happen going forward.

Mr Holden: Ms Culley from Manchester?

Carol Culley: I agree with what Lorna said. I have also been working from home predominantly for the past year. I'm in the office today because I was terrified that the wifi might cut out or the dog might disrupt things.

Mr Holden: We've all had that issue.

Carol Culley: We are looking hard on how we can build on the best of what has happened during the pandemic, and on the investment that local authorities have had to put in to enable people to work remotely, to get the best from a hybrid approach where you work from the best space to deliver productivity.

Q50 Mr Holden: Sure. Mr Reeves, would you concur with your colleagues on the other local councils on this point?

Martin Reeves: Yes, I would. The truth is that the genie is out of the bottle. The last year has seen productivity through collaborative tools like this one, notwithstanding "You're still on mute" and the kind of challenges that we have all learned. In terms of productivity, people are going to move towards a hybrid way of work.

The one thing I would say—we are thinking about this a lot in Coventry and the west midlands—is that there is something that you can never substitute for the notion of place, connectivity to place and that visceral sense of connection. For local government officers at all levels, from the chief executive right the way through to the really important people in our organisation, that linkage to the place has changed fundamentally. My



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own city of Coventry has changed in the last year. It has been rebuilt physically ready for the city of culture. You have to stay connected, as well as using the productivity and collaborative tools.

This is the key point for me, which links to your direct question at the beginning about allocative efficiencies, and how we can think differently about outcomes. I have been so proud to watch every single type of professional colleague in Coventry City Council and many colleagues across the west midlands region, some of whom may have a legal background, drop everything to be one of our covid advisers or part of our voluntary programme into vaccination centres or lateral flow testing.

You might say, "What's that got to do with anything?" What we are finding is that the productivity released from being able to do a lot of functional stuff remotely from home has freed up our capacity in our organisation and our city to allow people to put themselves into different outcomes. There are two effects of that. One is that the voluntary effort is fantastic. Secondly, though, I think that the contact with communities and people, and opening the eyes of those who quite frankly probably did not see the frontline before, will have benefits with regard to outcome delivery going forward. We need to remind ourselves of that, as we return to work and think about getting that connection back with place.

Q51 Mr Holden: I take the broader point that generally people have liked having a better connection with their families, as Ms Baxter said, but have you seen any impact on your employees of not having places to work at home and things like that, or has that been relatively minimal and people are actually finding it better for their families? Do you have any sort of anecdotal evidence on that?

Martin Reeves: Not anecdotal evidence; I have empirical evidence. The city council here and many of the local authorities should hopefully be regularly surveying the health and wellbeing of employees. What has happened in Coventry, which I would imagine is similar to not just other mets of our size but most other local authorities, is the following. We see it through a lens of a number of us being lucky enough to have space in our home environment and decent broadband connectivity. That is not true across all of our workforce.

Particularly if we look at those on the lower-paid levels, they simply have not had the room and the space, particularly when there have been competing demands with children who have been home from school, to be able to deliver. I have had stories from these surveys of colleagues who have been delivering great services, but literally the laptop has been on their lap in an area of the house, because no other space is available. You could say, "Well, that's trivial." It is not; it is key.

What we now need to understand is that the psychology of return means that we need to facilitate in local government, and we are doing this, the gradual return of that psychology of coming out of that work environment, which has not worked for everybody, to get them back into a much more functioning place. Others, as colleagues have already said, are saying to



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me, “Don’t make me come back. I’m absolutely loving being at home, and the work-life balance.” Our sophistication and precision is to understand that our workforce, in my case with a workforce of 10,000, includes probably 100 to 200 different types of worker. We need to make sure that we are sophisticated enough to allow them to return to this new hybrid world in a really sensitive way.

Q52 Mr Holden: It would be really helpful to the Committee, ahead of our meeting on Thursday, if you could share some of the empirical findings from each of your councils, if you have those, because it would be a very helpful thing for us to press the Department on.

Mr Whiteman, following up on that, obviously a lot of families will have had difficulty with children being at home. Now they will be going back to school, so we will obviously look at some of this in that context as well, but we are seeing some local authorities still looking at large capital programmes—new county halls, new building programmes, and that sort of thing. Would you press local authorities to look at reassessing that at this moment, and maybe looking at more home working to try to drive some of the allocative efficiencies that we are talking about?

Rob Whiteman: Councils tell me that they are looking at those strategies and reviewing where they were beforehand and comparing it with now. On the whole, councils assume they will hold fewer operational assets going forward. They will not need as many offices or operational assets, and to some extent they will be able to streamline their balance sheets because of that. Councils think that their HR strategies will be enhanced by home working, because they will be able to recruit and retain people that they could not before. Ideally, sometimes you do need to be local, but actually they can recruit people in other parts of the country, particularly for roles that they had difficulty recruiting for in their local labour markets.

There is quite a lot of excitement among many local authorities that regeneration and renewal will now be possible in different environments from before. We often associated regeneration with cities, but actually a lot of councils think that people will now be spending more in local high streets or local shops, and that they can have strategies on their local economy—particularly if they have good broadband—that they did not have before. There is a real opportunity here to improve productivity and probably to see some enhanced local economic development in some areas that thought they could not have that.

Mr Holden: Mr Whiteman, that is a very good point about towns and villages, and people working from home perhaps using their local high streets or using a council office hub in a high street that is underused at the moment. I urge you to have a word with Durham County Council, which at the moment is spending £50 million on a new county hall with a roof terrace, which was put forward before the pandemic but perhaps now could be looked at afresh in the light of all the changes that we talked about. Thank you very much indeed, Chair.

Chair: Thank you very much, Mr Holden. I now turn to Peter Grant MP.



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Q53 **Peter Grant:** I apologise to the witnesses; I had to change meetings briefly to the Chamber. One limitation of the wonderful Zoom technology is that you cannot be in two places at once.

I will come first to Ms Baxter, and possibly then to Ms Scully, picking up on some of the questions we have had on the longer-term changes to the way that local authorities work as a result of covid. We have heard that changes will almost certainly be necessary in social services, with a significant financial impact. On the question of increased home working, I would be interested to hear whether you think that has had any significant financial impact, positive or negative, and whether it is likely to have a short-term impact or a sustained one? Related to that, are you aware at the moment of any other likely significant changes on the demand for your services that will have a longer-term impact after the immediate issue of covid has been dealt with?

Lorna Baxter: I do not think that the financial impact of working from home is significant. I think the biggest significance is actually in terms of climate action and the environment—there is less travelling, less printing and less energy use, in terms of large corporate buildings. We have made savings in both councils in the current year, and we expect to make savings on an ongoing basis, on the assumption and expectation that things will not revert back to how they were before and we will have some hybrid approach. However, I definitely think that the impact is much more linked to the green agenda and the lower mileage being done.

In terms of the longer-term impacts, my concerns are around—we have already covered these—adult social care, increases in children’s social care, mental health conditions in both children and adults, and impacts on homelessness. There may be some other issues, which we have also touched on, such as whether, with less car park usage, we can expect to see more people cycling, and whether there will be more demand for more capital projects and more investment in terms of cycleways and footways, as people become used to being out and about and travelling in a different way.

Q54 **Peter Grant:** Ms Culley, would you agree with that? Would you add anything to that list?

Carol Culley: I agree. I echo the points about working from home. I think there is still space for a vibrant civic quarter, if you like. It might be that there are different people in those offices, and it gives more people a chance to be there, with some people there for less time. I also agree that there is a need to make sure there is a safe space for people to work. There will be some financial savings through rationalisation—in our case, of our leases.

The longer-term impacts are, to a certain extent, on the demand-led services. We are certainly seeing it across mental health and homelessness, so I agree with Lorna on those. I would not underestimate the impact of the zero carbon agenda and the reshaping of services that is going to need to happen. Some of that investment is in our green spaces and travel, and we need to rethink how we deliver a lot of services, both



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within the council and in our place leadership role, in terms of influencing how we think about how the economy recovers as well.

Q55 Peter Grant: Looking ahead to the '22-23 financial year, I take Ms Culley's point that it is going to be far too soon for any significant change in the local government funding formula to have an effect, but hopefully by that time the level of infection will be pretty stable and the immediate crisis will have gone. How confident are you that local government and central Government, working together, will have enough information by that time to be able to assess which local authorities will need the most additional support to deal with the kinds of issues that you have raised? It certainly seems to me that different tiers of local government will be affected to different extents by those factors. Possibly there will be geographical differences. There will certainly be differences between big cities and more rural or small town authorities. How likely is it that we will have the information available for the funding distribution for '22-23 to be done on a fair basis, and at least based on some kind of rational assessment as to what the needs are likely to be?

Lorna Baxter: I think it is probably still too soon. We referred to this earlier. Thinking about children's social care, it often takes 18 to 24 months of children going through the system to understand what their care needs might be. If you think about children who are just back at school now, we might not know what the impact is, in terms of looked-after children, for another 18 months from this point. It could also be a similar position for adult social care and elderly care, on the basis that you have had a lot of people who have had support at home from their relatives in the short term. As that changes over the future, it might see a change in the demand.

For a number of services, it probably will still be too soon to have the evidence to be able to use it for reform in '22-23. That goes back to the point that we were making: implementing a fundamental review for '22-23 is going to be too soon, because I don't think there will be the evidence in terms of both those aspects, but also in terms of businesses, if you think about the furlough scheme not coming to an end until later this year. It is going to be quite a while before you understand the impact, in terms of how that influences both businesses and council tax. I think it is going to be too soon for '22-23.

Peter Grant: Ms Culley, do you have any other comments on that?

Carol Culley: I would agree that '22-23 is too soon. We can start the thinking, but we will not fully understand by then the impact on the economy, in terms of businesses and residents, or what the longer-term shape of services is going to be.

Chair: May I thank our witnesses very much? It has been really encouraging to hear—perhaps I am being cynical—such open and honest discussion about the situation, which is perhaps a little different because you are not actually responsible for the Government Department running it. It has also been very helpful to hear direct feedback about how the



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Department has worked with you and how other bits of Government have worked with you, and some very interesting thoughts about the fundamentals of local government reform and financing, which I am sure our witnesses on Thursday are already listening to. If not, we will be replaying it to them very strongly on Thursday.

The transcript of this session will be up on the website, uncorrected, in the next couple of days. We are holding our session on Thursday from 10 am, live on Zoom. You are very welcome to tune in, but we will also make sure we send you copies of the transcript of that and our eventual report, which will be out in due course. Thank you very much.