

Select Committee on Public Services

Oral evidence: Public services: lessons from coronavirus

Wednesday 15 July 2020

3 pm

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Members present: Baroness Armstrong of Hill Top (The Chair); Lord Bichard; Lord Bourne of Aberystwyth; Lord Davies of Gower; Lord Filkin; Lord Hogan-Howe; Lord Hunt of Kings Heath; Baroness Pinnock; Baroness Pitkeathley; Baroness Tyler of Enfield; Baroness Wyld; Lord Young of Cookham.

Evidence Session No. 13

Virtual Proceeding

Questions 84-89

Witnesses

I: Sarah Arnold, Senior Economist, New Economics Foundation; **Paul Johnson**, Director, Institute for Fiscal Studies; **Professor Tony Travers**, Professor at London School of Economics, Department of Government, and Director, LSE London.

Examination of witnesses

Sarah Arnold, Paul Johnson and Professor Tony Travers.

Q84 The Chair: Good afternoon, everyone, and welcome to this meeting of the Public Services Committee of the House of Lords. We are continuing our inquiry into how public services have responded during the Covid crisis and what that teaches us about public services.

We have two very interesting panels today. The first is looking at finance and the national and local implications. We have a very interesting and top-level panel, as ever. I am delighted that we have with us Sarah Arnold from the New Economics Foundation, Paul Johnson from the Institute for Fiscal Studies, and Tony Travers, who is at the LSE as a visiting professor but has been working on local government finance for longer than either of us will care to remember, I suspect.

We are always pressed for time and we need not spend a lot of time talking and getting to know each other. May I ask the witnesses to introduce themselves when they first speak and say where they come from? We will then move into the questions. If Members have

supplementary questions, if they wave at me, I will try to ensure that I pick that up.

I will start with the first question. Since lockdown, the Government have borrowed money at record levels, and at much higher levels than in any other crisis we have known, to protect the economy. What do our panel members think will be the consequences for the funding of public services in the future?

Professor Tony Travers: I am from the London School of Economics. I would like to thank the Committee for inviting me to give evidence this afternoon.

As you said, there are no parallels since the Second World War for the scale of additional public spending and loss of income for some parts of the public sector, leading to a very big increase in borrowing over a remarkably short period. Both the scale of it and the intensity of the need to act—my colleague witnesses may take issue with this—probably have no parallel, and certainly not since 1945. Even the banking crisis of 2008-09 was not quite on this scale.

The immediate question arising from the scale of government action, the impact it has had on the annual deficit—or more than one year deficit, according to the Office for Budget Responsibility yesterday—and the way in which it adds to the stock of national debt is how the Government respond in the aftermath of immediate need to do this.

First, it is a question of whether the deficit and the debt are reduced at a particular speed or the stock of debt is indeed reduced at all. Secondly, it is a question of whether that is done by tax increases, reductions in public spending, some mixture of the two, or indeed just tolerating the scale of deficit and extra debt for a while.

To add one final thought before I go on too long, the challenge is that any return to austerity—reducing the debt or the deficit and reducing long-term debt by reducing public spending—comes off the back of 10 years after 2010 when that has had to happen to reduce the deficit that existed at that point. The big challenge is what the Government do this time, given that we have come through a period when much public spending has been constrained and certainly some parts of it for quite a long time.

Paul Johnson: I agree with what Tony has said, of course. In a sense, the question is not what impact this year's borrowing will have on public services. The answer to that is that it will have no effect at all. If this is a one-off and the economy goes down, and if we borrow £300 billion to £350 billion this year, and the economy jumps back to where it otherwise would have been, I think we will feel that we have lived through a bit of a nightmare but we will get back to normal in public services and just live with a higher debt, which we will decide how to reduce potentially over a very long period.

It all depends on two things in that case. One is how quickly the economy comes back. The OBR central scenario now is that, even by 2025, we will not be back to where we otherwise would have been. That is much closer to where most economists think we will be, as opposed to where both the Bank of England and OBR were earlier in this crisis, where their baseline scenarios suggested very sharp returns to normal.

If the economy is smaller in the long run, as it almost certainly will be, clearly the capacity to spend as much will be less and will require a certain level of borrowing. That would imply higher taxes at some point. I am not talking about this year, next year, or possibly even the year after, but at some point, that will be necessary.

Secondly, there is the political economy. It seems to me unlikely that some of the supposedly temporary increases in spending, particularly on welfare benefits, for example, will be unwound. My guess is that they will be retained in part or in full. I am pretty sure that increased spending for the NHS will not be unwound.

The co-host has stopped my video, apparently. Can you still hear me?

The Chair: We can still hear you, Paul. I will ask the broadcasting unit while you are talking to sort that out. You are back.

Paul Johnson: I obviously said something very offensive to somebody. Where was I?

The second issue is clearly the political economy. As I say, at least some of the supposedly temporary increases in spending will continue, and the pressure for increased spending on social care in particular—and, I suspect, on some aspects of education and other public services—will be substantial.

My guess is that, in a slightly odd way, the consequences of this crisis for public spending will be for more of it, not necessarily for technocratic economic reasons but because of the way this is playing out in political economic terms.

If we have at the end of this, as I suspect we will, and as we did after the First and Second World Wars, a bigger state than we had before it, clearly at some point we will have to pay for that.

Sarah Arnold: I am with the New Economics Foundation. Thank you for inviting me to give evidence today.

I agree broadly with Tony and Paul that the level of borrowing in the immediate term should not be a key focus of concern from a macroeconomics perspective, primarily because the cost of the debt is very cheap. Although we are at high levels of debt to GDP ratio historically, the total cost of the debt is lower, as the interest rates on it are at historic lows. The recent OBR forecasts have suggested that they will remain below 2019 levels at least until 2030. With the weak global outlook, we expect interest rates to remain low.

In addition, actions by the Bank of England have powerful spillover effects pushing down interest rates. It is unlikely that the current borrowing for public service funding will affect things from a macroeconomics perspective, but it could from a political choice perspective.

It is also worth mentioning that it is unlikely that the Government will be able to borrow indefinitely to fund current spending. There are two reasons to start planning for potentially higher public spending. First, as Paul mentioned, the crisis has drawn attention to areas of public services such as social care. It seems there is now an appetite for higher public spending on these services. Recent polling has found widespread support across political lines for such things.

It is worth pointing out that, even were this not the case, demographic pressures—for example, an ageing population—mean that we will need higher spending if we want to maintain current levels of public service quality.

Beyond borrowing, at this point it is also helpful to start thinking about the tax system and how to pay for these things in the longer term. We need to examine the tax system to determine what desirable level of taxation is needed to achieve the level of public services that people want and need, as well as the composition of tax, which will have significant implications for the distribution of wealth and income, and for inequalities across the nation.

Raising tax as an aggregate right now would likely be a mistake due to depressing consumer spending and productive investment. However, it may be worth thinking about this for the slightly more medium term. If there is a public appetite for it, we could look at wealth taxes—there has recently been much discussion of these—and offsetting them in the short term by temporary cuts to VAT or national insurance contributions, for example, to keep taxes in aggregate and constant.

Q85 Baroness Pitkeathley: The Government have allocated £3 billion to support local authorities after the coronavirus crisis. Will this be enough for local authorities to continue to deliver services at anything like the level that we are seeing currently? I would like to come to you, Professor Travers, first, bearing in mind what you said in your written evidence to us: that you have seen a reluctance to fund local authorities by the Government, in contrast to what they have done for the NHS and railways.

Professor Tony Travers: I did make that point. In fairness to the Government, they have put forward more than one package of support for local authorities. One of the difficulties that both the Government and individual councils have is that typically a local authority will have lost part of its income. It might lose some of its income from local taxation and some from fees and charges, and so on. Separately, many of them, particularly the upper-tier authorities, although not only those, have had to put up their spending, for example on social care. So there is now a

gap between their predicted original spending and their income, which is far bigger than is acceptable.

The trouble is that it is unique to every authority; every authority is in a different position. That means that, with the best will in the world, the Government are allocating extra money to councils without knowing what the gap would be in each one. At that level, there will have to be an endless catching-up exercise. In the short term, councils need to be given enough of a guarantee that their cash flow is likely to be sufficient through the whole year so that they avoid the issuing of a so-called Section 114 notice, whereby a senior local authority finance officer would be required to tell councillors in effect that their spending is higher than their income in year. Councils are not allowed to run a revenue deficit—a current spending deficit—in the year, and it would mean the need for immediate cuts to services.

It is a balancing act. The slight challenge to you in my evidence was that, even though I think the Government are trying their best, in the short term it is very hard to know the total end-of-year cost and the total end-of-year loss of income. That has meant that they have been a bit more wary in trying to ensure that councils bear at least part of the burden. That risks, in the end, the need for cuts in some authorities' spending.

Baroness Pitkeathley: Is there not a problem for the local authorities themselves in not knowing what the level of need will be? That will perhaps come out only in the short term rather than immediately.

Professor Tony Travers: That is absolutely correct. By the way, we are talking now about the current financial year, 2020-21. This will carry on into 2021-22. Although it may not be at the scale of this first year, we will have to go through all this again next year.

There is a challenge for central government, which is to judge whether councils' expenditure is reasonable—whether the income loss figures they have put forward are reasonable. That is a kind of audit job in some ways. The Government's difficulty is that there is not really an extant institution to oversee all this, to make judgments about what local authorities individually and collectively are saying. But councils of all parties are coming up with broadly the same line.

I think I am right, Paul, that the Institute for Fiscal Studies is doing some work on this. It is inevitable that at the end of the year there will have to be a sort of reckoning, a council-by-council audit, to be certain that each council has been given just enough money but not too much. It is difficult.

Baroness Pitkeathley: Paul, do you want to take up that issue about whether there is enough money to deliver the services?

Paul Johnson: We do not know how much is enough. As Tony said, the perhaps surprising aspect of this crisis is that the big impact on local authorities is not so much on the spending side but on the revenue side,

because they are losing business rates, council tax and money from fees and charges.

Again, as Tony said, we have looked at this authority by authority. Some of them are just very different. You can have two neighbouring authorities, one of which gets 50% of its income from fees and charges, and one of which gets 5%. Clearly, the fees and charges on parking and leisure facilities and so on went down to near enough zero over the lockdown period.

There is also not an obvious geographic divide. In fact, this is a case where the local authorities that are more dependent on council tax are being hit harder. They tend to be those in the better-off areas. The bigger cash losses are often for some of the economically more advantaged areas.

The question for the Government is what they want to achieve with a bailout. Clearly, the cheapest thing to do is what we are suggesting, which is to try to measure for each local authority exactly how much additionally would need to be given to them to prevent them from going bust.

That may not be the right thing to do. You may want to give every local authority compensation for the amount of income that they are losing, even if that loss of income would not take them anywhere near to going bankrupt, because they happen to be either managing themselves well or were lucky in the past.

You may or may not want to bail out councils that have made big losses on commercial property investments, for example, which some of them have done. You may want to give a broad-based, across-the-piece substantial sum of money to ensure that everyone is okay. That is obviously more expensive but is much more straightforward to do. It also may be more incentive-compatible, as it were, on local authorities.

You have a choice about what you are trying to achieve with any bailout. The crucial thing for local authorities is that they need to know how this will work and broadly what will happen, because if they do not it is extremely difficult for them to plan. They may be implementing big cuts very quickly because they are worried about not having money at the end of the year, or they may be running towards big deficits because they are expecting more bailout money to come.

At least at that high level of what we are trying to achieve, and how we will do it, it is quite important to get some clarity on that.

Sarah Arnold: I would agree with Paul that one of the key things from a local authority perspective is some certainty to allow for some planning. I would also highlight that local authorities had a problem with local government funding prior to going into this crisis. There has been quite a lot of uncertainty—and changes—to local government funding over the last decade. Prior to the crisis, there were several ongoing reviews to

local government funding with respect to business rates and distribution across local authorities with the fair funding review. However, none of these looked at the level of revenue needed overall. It was more about the distribution. There is a need to think about revenue needs in the long term as well as in the current crisis.

The impacts of Covid on jobs—the crisis associated with jobs—are quite unevenly spread geographically. Regions in the UK with lower average incomes, such as those in the north and west of the country, have a larger proportion of jobs at risk. Recent analysis by the Centre for Progressive Policy indicates that there is a lack of economic resilience across many local authorities. Many of them are not expected to recover their level of output based on pre-crisis trends for at least five years.

It not just the national perspective but the local perspective. We need to start thinking about the more medium term as well as about the initial bailout so that they can have that support.

Q86 Lord Hunt of Kings Heath: To what extent have our three witnesses built future lockdowns into their forecasts? I have been listening to some health people this morning, and there seems to be some confidence, although that is not the right word for it, that this autumn we must expect a further surge of people affected by Covid-19, with an impact, I assume, on the economy, and on activity, with cost pressures on our public services. I have read the forecasts about the economy. To what extent can future uncertainties be built into your view about where we are going?

Paul Johnson: In a sense, we are not making forecasts. All of this is conditional on what happens next. The OBR, for example, put out a range of possible outcomes for the economy, which included, effectively, a much slower recovery because of a second wave. Indeed, nearly all the forecasters I have seen making forecasts have produced such a scenario in which things tend to look quite grim, I have to say.

The forecast I quoted in answer to the previous question was its central forecast, which did not assume a second lockdown, but if we get a second one—I cannot remember the numbers—it is expecting the economy to remain substantially below previous expectations for a very long period. That will start to create even bigger problems for everything that we are describing in the medium run, in funding public services, and managing the debt and deficit.

If we have a second period of lockdown within the next four or five months, and people are looking like losing their jobs again, I presume, although I do not know, that the Treasury would reintroduce some form of furlough scheme, which, as we have seen, is staggeringly expensive and clearly would reduce local authorities' income again. The cost of a second lockdown is likely to be really substantial, both at the national and local level, and in the medium run, not just in the short run.

To some extent you can see it in policy. The Government's difficulty in making consistent policy is both the urgent need to get the economy going at the moment and the urgent need not to risk a second wave, with the associated lockdown and cost to the economy. That is such a tough trade-off to make.

Sarah Arnold: I have nothing particular to add.

Professor Tony Travers: To add to the answer I gave to Baroness Pitkeathley, and building on Lord Hunt's question, we can already see—Paul has alluded to this—with Leicester and potentially Blackburn with Darwen that we might not get another blanket lockdown. Although that is still possible, I suspect it is more likely to be a series of local or partial local ones. You can see from that happening how intricate the calculations would have to be not only about the funding of local authorities but about whether there would have to be some sort of extension of furlough in individual areas, as opposed to across the whole country or indeed in individual sectors.

The challenge this puts back to the national government, given that we are in a rather centralised country, is that they will have to be incredibly sensitive locally if there is a lockdown in one or two councils only—or parts of councils in the case of Leicester, because it is not just the city of Leicester but parts of the districts around about. As I say, that requires incredible sensitivity at the core of government in getting the figures and the policy correct for each place as those local lockdowns occur.

The Chair: I will call our local councillor, Baroness Pinnock. Her council has a mini lockdown in place.

Q87 **Baroness Pinnock:** I declare an interest as a serving councillor in Kirklees. As I speak, the mobile test and trace units are on the streets near there.

It seems to me that you have all agreed that, essentially, local authorities probably have not had quite enough additional funding from the Government to fund their way through this crisis, for a huge variety of reasons. However, it seems that some local authorities went into this crisis in a much poorer and less resilient state than others, mainly the councils that had relied more heavily on central government grant to fund services, which was then removed. Those same councils have more deprived communities and require more services. With this particular crisis, the more diverse communities are more subject to the effects of the virus.

It seems to me that there is a combination of issues for some councils that perhaps the Government could look at. What are your views on that? These are the councils that had less economic resilience going into the crisis because of huge cuts, and they are also areas of deprivation—this probably describes my own council; I am sorry about that—and more diverse communities.

The Chair: Who is ready to respond to this? We will move on in the next

question to what councils were like coming into the crisis, but, Tony, do you have something to add now?

Professor Tony Travers: Sarah referred to this indirectly. As I am sure Baroness Pinnock will know very clearly, a fair funding review was due to take effect this financial year. Understandably, because of political considerations, it was postponed. It will probably be postponed again, but I am not 100% certain about that. It is hard to see, on top of everything else, whether a fair funding review could go ahead next year.

Separately, there are other complicating issues. The business rates will have to be looked at. Although they are not really a local tax, they are indirectly and partly a local tax, and they are based on an economy that has radically changed.

Even if there is no fair funding review next year, this points to the need for a short, sharp look at the position that individual authorities find themselves in this year in order to give some clues about what the Government need to do next year. Going back to a point I made earlier in answer to Lord Hunt, council-by-council sensitivity will be required. That is a big ask of MHCLG.

Paul Johnson: The point about council-by-council sensitivity is really important. The pattern, in a way, is not straightforward. It is not the councils that have lost the most or have been the most deprived that are facing the biggest challenges this time round. It is the councils that are most dependent on their own income that are facing the biggest challenges this time round, on the whole, because those income streams are drying up. That means that quite often it is the more prosperous shire councils that are facing some of those challenges.

Indeed, if you are looking at the other challenges that are faced in local areas, the furlough data that HMRC produced today shows almost no regional variation in the proportion of work that is being furloughed. If you look at things like potential sensitivity to Covid, clearly there are some areas with much more elderly populations than others. Some of those areas are quite well off and some of them are really quite poor. In the education system, the poorer areas with children are particularly at risk.

Different aspects of this crisis are having quite different effects on the same local authorities. This goes right back to this issue that focusing resources where they are needed is council by council. It is not that we need more for poor councils and less for rich ones, or more for metropolitan and less for rural, or northern versus southern. Two councils right bang next door to each other can look totally different.

The Chair: That is very interesting.

Q88 **Baroness Tyler of Enfield:** I will pursue this issue of adequacy of funding, if I may, but perhaps with a slightly longer timeframe. This is the point that Sarah has already introduced.

I am interested in how the cuts in funding seen over the last 10 years or so following the financial crisis are still affecting the ability of both central and local government to deliver public services in the light of the coronavirus outbreak. I am particularly interested in whether that is a broadly consistent picture, or whether the variations that Paul and Tony have already talked about council by council are clear regional variations as well as very local-level variations.

Sarah Arnold: Broadly, I would say the last decade of fiscal tightening has been a focus on short-term efficiency in stripping services back as much as possible to ensure that they are highly efficient. That focus on short-term efficiency gains has led to a lack of resilience or a lack of potential long-term efficiency. In particular, it has led to a workforce crisis in many different sectors and a suppression of wage growth. In some cases withdrawal of financial support for training has led to shortages.

There are work pressures on current staff in many fields. There has been a lot of emphasis on the NHS, notably nursing and social care, but there is a significant list of other public service professionals, including other health professionals such as occupational therapists, speech and language therapists, psychologists, and teachers, teaching assistants and police. There are lots of vacancies now. There are 41,000 vacancies in nursing and an estimated 120,000 vacancies in social care currently.

It is important to note that the workforce is the means to achieving high-quality, safe, effective and timely public services. This underinvestment in the workforce has led to work pressures and potential risks to the quality of care and the quality of services that have been able to be provided.

There has also been an underinvestment in buildings. Many hospitals, schools and prisons need upgrading. This investment will be pretty inefficient, or pointless, if the buildings stand empty. Services cannot run without a motivated, well-trained workforce.

Underinvestment in the workforce has led to a lack of resilience and ability to perform. In social care, in particular, there has been some regional variation, broadly because councils with responsibilities for social care have had different impacts on their finances, as people have highlighted previously. Therefore, the ability to perform and the resilience of services showed variation going into this crisis.

Paul Johnson: Clearly, we had a decade in which the poorer and more metropolitan local authorities lost a great deal more than others. There is considerable variation in their capacity to deal with the future.

Exactly as Sarah said, there are big workforce issues that are very variable by area and region. It is not just about problems in London, by the way. Some of the very poorest areas, where public sector wages look quite high, nevertheless find it quite hard to attract people because they are not seen as particularly attractive places for graduates, for example, to work. We have variations of that kind as well. As I said before, there

are very big variations in pressures as a result of different demographic characteristics, different economic characteristics and so on.

I am sorry, Baroness Tyler, I confess I was not quite clear about the thrust of your question.

Baroness Tyler of Enfield: It was about the impact that the last 10 years had had on services and how councils could then respond to the crisis. It was also about the regional and local variations. I think you have broadly covered that. Tony, do you want to add to that?

Professor Tony Travers: This could not have happened at a worse time, to put it at its simplest, in the sense that it looked as though the current Government or their predecessor—the same party—were about to move away from austerity, in fairness. They were going to move on, and at that very moment along comes Covid-19, with the impact on broader public finances that we are discussing. If we were to go back to 2010 and follow the logic of the policy at that point, we might expect a radical further attempt to reduce the deficit and the additions to national debt after what has just happened. That is a political issue not for this afternoon.

All I would say is that I think we all agree that the impacts of Covid-19, whatever they are, come at a time when local governments' core capacity had been shrunk. Remember, whatever the average figures are, spending on some local services had been cut by 50% or more—the ones that had not been protected. While councils made an effort to protect older people's social care, adult social care and children's social care—with some success and with some additional government support, latterly—the rest of local government spending has been cut way more than that. That is the difficulty.

Lord Young of Cookham: It is a long time since I was a local government Minister, but my recollection is that the bulk of the funds to local authorities is distributed by a formula. You would publish the proposed grant for the next year. Every local authority would find some reason why it was particularly unfair on them, but the Government would go ahead, and it is done by a formula.

What I think Paul and Tony have been saying is that we need something that is much more granular than a formula if we are to cope with the differential impact of the pandemic on particular local authorities. I wonder whether they have thought through the implications for MHCLG, and indeed for Ministers, who, if I follow the logic, will be in the position of granting individual sums of money at discretion to individual local authorities. Is this the direction in which our panel is directing us?

Paul Johnson: There is a point at which you can have a formula that is so complex that it is almost the same as doing what you describe. We know, for example, how much money from different sorts of fees and charges each local authority receives. We know how much they get in

council tax. We know unemployment rates by local authority and what is happening to business.

We know quite a lot. One could design a very complex formula as point one. You could add a little to that to err on the side of generosity and hopefully have a relatively small number of other places that you need to top up; or you could go down the route of almost individual negotiation; or, as I said at the beginning, you could decide to be more generous than you absolutely need to be to ensure that nobody is in the position where they just cannot keep operating. Those feel to me the options that are available.

As to what MHCLG can do, the data is not bad. Even the public-level data that we are able to use is not bad and enables us to have a pretty good first stab at how this will impact on individual local authorities. It is not that you would be operating in a complete fog, but of course there are always additional specific issues that we cannot see in that data.

I think that in the end this is feasible. There is a continuum between very complex formulae and individual allocation. There is a trade-off between how generous you are and how much time you will have to spend in addition topping up individual authorities.

Professor Tony Travers: At least two, and probably three or four, members of the Committee have been local government Ministers, so you will all be aware of the horrors of running the grants system.

The Chair: Yes.

Professor Tony Travers: But as Paul has said, the difficulty here is that, although we were moving faintly away from austerity, individual departments always wanted to ensure that their money was protected, so we had ring-fenced grants for public health and potholes, and effectively ring-fenced grants for older people's social care. We are now agreeing, at least in the short term, that loss of income and extra spending will require a council-by-council calculation of what each one needs. We are being taken temporarily, and not so temporarily, towards a system that is closer to discretion at the national level for the allocation of grants to individual councils.

Our old friend the formula, or the ghosts of the formulae of the past, is still there, but we are undoubtedly moving in the direction of greater central discretion, about which Ministers have little choice for the time being, in fairness, because, as we have agreed, it is different from council to council and from region to region.

The Chair: My father used to say that only three people ever understood the local government formula, and they did not agree on it, either.

Lord Filkin: Going back to Paul, first, I have a question about what I heard you say about metropolitan councils with very high needs having experienced higher levels of cuts in government grants over the last decade. If that is the case, it is striking and surprising. Could you give us

an indication of the scale of the differences?

There is a follow-on from that. Given that you are all saying that there will need to be greater discretion by government in these utterly unusual circumstances—there always was considerable political discretion in the revenue support grant, in any event—how do we put some sort of audit system in place so that it is not open to cruder forms of political gerrymandering, if I can use a rather coarse term?

Paul Johnson: I cannot honestly remember the scale of the differences between councils' reduced spending capacity over the period, but it is quite substantial. The reason, essentially, is down to the way the formula operated as regards cuts. It resulted in cuts, at least in the early years of the coalition Government, to central government support. These were more similar in their impact across local authorities than you would expect given the levels of central government support for different local authorities.

The result was that councils that were more dependent on their own council taxes and less dependent on central government grant suffered less with smaller cuts as a fraction of their total budgets than those that were more dependent on central government grant. The impact of a 10% cut in grant was bigger for those councils that were more dependent on grants as opposed to those that were not.

We have had a series of changes to the way these cuts have been allocated. More recently, we have not had that pattern. In the early years of the coalition Government we had that pattern. That resulted quite significantly in those authorities suffering bigger cuts to their overall budgets. That was not because they were metropolitan or poorer, or whatever, but because they were more dependent on central government. Of course, being more dependent on central government is a very close correlate with being poorer and more metropolitan.

Lord Filkin: Do either you or Tony have any comment on whether we need some system of stronger audit of the process? You can see where I am going on that.

Professor Tony Travers: I can see where you are going, Lord Filkin. There is no doubt that it has proved difficult for government and for those such as CIPFA, the public sector accountancy body, to assess the position of individual councils. It has been rather more difficult than if there had been some overarching national audit institution, which could have made judgments with some understanding council by council of how well managed they were and what their actual financial position was. Clearly, that has been a challenge for government. Of course, you will be more aware than anybody that there used to be such an organisation, but it no longer exists.

Sarah Arnold: The only thing to add is that, although it is highly complex to design a funding formula, or to think about this on a case-by-case basis, I want to highlight that at least half of the £3 billion grant that

was referred to was allocated on a per capita basis. Places were given money based on how many people were there. Essentially, that is the alternative to doing all this.

While there is a lot of complexity to designing these things, the alternative solution does not really work. Therefore, although there is a lot to think through, it is worth doing.

Q89 Baroness Wyld: I remind everyone that my register of interests includes my role as a non-exec member of the Ofsted board.

I wanted to look a little more closely, in the context of what we have been talking about this afternoon, at what we have learned about two areas: childcare and social care, with obvious crossover. Given that we have talked about a potentially smaller economy, and, Sarah, you talked about the need to look longer term at the tax system—I know you have done some specific work on childcare—would you start for us?

Sarah Arnold: The crisis has highlighted the fragilities in both the childcare and social care sectors, as well as their potential value.

Taking a quick step back, the scale of this economic crisis has been reflected primarily in the level of unemployment that we are expecting to see. The central OBR estimates assume that around 3.5 million people will be unemployed by 2021. We need 1.6 million new jobs to return to 2019 levels of unemployment by that time. Some 5.3 million people are currently employed in the public sector, or were, so there is a significant opportunity and demand to use public sector employment as a way to stimulate the economy and to create jobs.

I turn specifically to what that will look like within childcare or social care. Dealing with childcare first, this crisis has highlighted that the childcare sector is really fragile. Recent polling of providers by the Sutton Trust highlights that a third of nurseries in poorer areas are at risk of closing and 71% of providers anticipate running at a loss for the rest of the year.

Investing in childcare can be a cost-effective focus for a fiscal stimulus plan. Spending on quality accessible childcare can be characterised as an investment, first, because it helps to close the attainment gap between children from low-income families and their more advantaged peers. It can reduce inequalities and create benefits that last through a child's time at school. Research shows that it is cheaper to reduce these educational inequalities by investing in very early years rather than later.

Secondly, it removes barriers to employment, particularly for women, who are still disproportionately responsible for unpaid care. There are 4 million mothers in the labour force who have children under 11 years old. This crisis has seen predominantly women taking on caring responsibilities and has highlighted the challenges in balancing those responsibilities with work requirements.

Research has demonstrated that investment in childcare and social care can produce around 2.7 times more jobs than an equivalent investment

in construction. These are the Women's Budget Group estimates. They show that these benefits would particularly accrue to women, so there would be jobs for women, although there would also be jobs for men.

Turning to social care, recent research has found that around an additional 4.5 million people in the UK have become unpaid carers for sick, disabled or older relatives as a result of the crisis, on top of the 9 million unpaid carers that already existed. Spending on social care helps the direct recipients to live the life they want, and live as independently as possible, and enables carers to make choices and to have full participation in the workforce.

We have been viewing investment in social care and childcare as an investment in jobs and a way of stimulating the economy. Particularly in social care, there is an opportunity to raise wages. Around half the workforce earns less than the real living wage. This is the wage estimated by the Living Wage Foundation to reflect living costs. It is slightly higher than the national minimum wage.

There is also a high need for jobs. Currently, there are around 120,000 vacancies in social care. Around 8% of the roles in adult social care are vacant right now. Over the next decade, just to maintain the level of current care and keep up with the demographic pressures, there will be a need for an additional 400,000 jobs over the next decade.

Finally, as well as investment in job creation and wages, you need to consider conditions to encourage recruitment and retention. There is a really high turnover rate in social care. Approximately 30% of jobs are turned over each year. There is also quite a high level of job insecurity. Social care workers are four times more likely to be on zero-hours contracts. When considering whether to invest to create jobs, you also need to think about pay and conditions to allow retention within those jobs in the slightly more medium term.

Baroness Wyld: Sarah has set out a case for what I would call a social infrastructure. Do you have any further reflections, without necessarily having to go through each topic?

Paul Johnson: One should see the wider education system in a similar light. My guess, to some extent, is that the worst long-run impact of this entire crisis could turn out to be on significant groups of children who have missed out on a substantial bit of education. We know from various surveys now that that has affected those from lower socioeconomic groups much worse than others. It has affected those in the state system much worse than those in the private system.

The fiscal response in education so far has been tiny relative to a number of the other public services that we have talked about. The response—for some of the same reasons that Sarah described, but I think for even bigger reasons regarding equity both within and between generations in the school system, and to some extent in FE as well—is a much-neglected part of the reaction to this crisis.

Professor Tony Travers: There has been a long-term squeeze on council budgets, and the Covid-19 pandemic crisis has clearly thrown a light on the long-term—so not only under this Government—challenge of coming up with a sustainable long-term way of funding older people's and adult social care. There is a real risk that if you just hold local government spending where it is in real terms, and try to increase spending on adult social care, children's social care will get squeezed. It is a mathematical certainty.

The Chair: You have given us lots to think about today. I am really sorry that we have to bring this session to an end. May I say thank you to you all? Thank you for the written evidence, too, and the other things that you have been writing about this. You keep us all busy in the rest of the week other than on Committee days. Thank you very much. If there is anything that you think we should have asked but have not asked, or that you wanted to say but have not had the opportunity, we would appreciate it if you sent your comments in to us. Thank you very much indeed.