Clive Betts MP
Chair, Levelling Up, Housing and Communities Committee
House of Commons
London
SW1A 0AA

19 December 2022

Dear Clive,

Follow up: levelling up funding

I would like to thank you for the opportunity to provide evidence as part of the Committee's inquiry into funding for levelling up. As I highlighted during the session, while extra funding for levelling up is welcome, the LGA has consistently stated our concerns about the reliance on competitive bidding rounds. It is clear devolution offers the best value for money and is the right response to fiscal constraints and the ambition for a smaller central state. Given the tools and resources to tailor spending to local needs and opportunities, councils will deliver better outcomes than a centralised system characterised by micro-management and duplication.

I wanted to follow-up with further detail on the impact of inflation on levelling up funding; the overall funding gap over local government and impact of levelling up funding; and the Office for Local Government.

Impact of inflation on levelling up funding

In regards to your question on the impact of inflation on levelling up funding, while we do not have any data on this ourselves, in November the IPPR found that £1 in every £13 allocated through key 'levelling up' pots of money - the Levelling Up and Shared Prosperity Funds - will be lost to inflation. We also have anecdotal evidence from our members who have confirmed to us that inflationary pressures are having an impact on allocated funding.

Overall funding gap and impact of levelling up funding

I thought it would also be helpful to clarify what we know about the funding gap post the Autumn Statement and whether the levelling up funding has helped take off any pressure off council budgets. The overall funding gap will have changed since the LGA's analysis in June which found that:

- Councils were having to find an extra £2.4 billion this year to meet unforeseen extra inflationary cost pressures, energy prices rises and estimated increases to the National Living Wage since budgets were set in March.
- These pressures were expected to lead to a £3.4 billion funding gap in 2023/24 rising to £4.5 billion in 2024/25.

However, it is difficult to estimate the gap following the Autumn Statement as we need further information from the Government before we can confirm how much the gap has closed. We expect this further information in the local government finance settlement. The LGA will write to the Committee with the updated funding gap figures post the Provisional Local Government Finance Settlement in December.

In the meantime, we can say for certain the statement was better than we expected as it provides some new government grants, protects business rates income to Consumer Price Index (CPI) and permits a higher increase in council tax and adult social care precept. However, the majority of the announcements in the Autumn Statement relate to social care and therefore do not meet some of the pressures other councils, particularly districts, are facing. In addition, not all councils will be taking advantage of the option to raise council tax to the maximum allowable, with some counties having already declared they will not. Councils are aware of the financial pressures their residents are facing at this time and are wary of placing further financial burden on them through council tax rises.

Whilst we welcome the additional flexibility from the Government to increase council tax by 3 per cent from April 2023, the LGA has consistently made it clear that increasing council tax is not the solution for meeting long-term pressures as it raises different amounts of money in different parts of the country, unrelated to need. This leaves many councils struggling to raise the funds that they need locally. How the resources are allocated to councils will also be important. Local government needs certainty on the allocation of resources for 2023/24 and 2024/25 as soon as possible. In addition, there was no additional resource for 2022/23. Councils will still need to consider scaling back services to balance their budgets but less than they might previously anticipated.

The Levelling Up Fund will not help balance council budgets as this is separate grant funding. However, the continued commitment to levelling up through the Levelling Up Fund is welcome, as it places councils at the heart of delivery, recognising that local leaders are best placed to respond to the needs of local communities. We welcome the delegation model adopted for the UK Shared Prosperity Fund as this will help local leaders deliver local priorities.

However, the delay in approving investment plans requires some local councils to reprofile their plans which has cost implications. Government could help by providing greater flexibility in spending between years. In addition, the introduction of the Rural England Prosperity Fund does not come with the same capacity and management funding that the UKSPF provided, increasing costs for councils to run the fund.

Office for Local Government

In the session I expressed concern regarding the proposed Office for Local Government. While the Levelling Up White Paper committed government to the creation of a new body focusing on local data, transparency and outcomes, there are signs that the emerging proposal around an Office of Local Government will duplicate information provided by existing services. It is also important to note that the LGA, through its public benchmarking tool, LG Inform, already makes available both financial and performance data about every council. LG Inform allows users to compare their council with any other council. For the new body to be effective, government must urgently act on its commitment in the White Paper to co-design it with local government.

I hope this additional information is helpful, and as always please do not hesitate to get in touch with Laura Johnson (laura.johnson@local.gov.uk) if you have further queries. My thanks once again for the invitation to share the LGA's thoughts with the Committee, and I look forward to reading the Committee's final report.

Yours sincerely,

Cllr Kevin Bentley
Chairman, LGA People & Places Board