Housing, Communities and Local Government Committee

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Rt Hon Robert Jenrick
Secretary of State
Ministry of Housing, Communities and Local Government
4th Floor, Fry Building
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19 November 2020

Dear Robert,

Spending Review and local government finance

On 27 October, the Committee launched an inquiry into the Spending Review and local government finance, with the aim of considering what approach the Government should take to funding local government as part of the 2020 spending review. We are investigating the current financial health of local authorities and their ability to deliver services, including the additional pressures caused by the Covid-19 pandemic. This work builds on the report our predecessor Committee published last August into local government finance which found that funding for local government had "been cut significantly since 2010" while simultaneously local authorities were prevented from raising council tax to fill the gap. We concluded that this had resulted in local government cutting back on non-statutory services and that they faced "significant uncertainty" as the then four-year settlement was ending. Even in advance of the pandemic, we found that the annual funding gap for local government would be around £5 billion in 2020–21.

We held our first oral evidence session as part of the new inquiry on Thursday 12 November. A full transcript is available on our website, but we thought it would be helpful to set out some of the key points raised ahead of the Spending Round announcement planned for 25 November, including what the Committee wants the Spending Review to deliver for local government. Many of the organisations taking part in our inquiry have also made submissions directly to the Treasury's consultation.

The financial picture

In evidence, the Local Government Association (LGA) told us that they estimate that for this financial year the pandemic will cause £5.4bn of additional expenditure and result in £2.8bn of income loss. These figures were agreed by the Institute for Fiscal Studies (IFS) who have used the financial survey returns from local authorities to the MHCLG as the basis for their calculations, although they recognised that these were forecasts and there remained much uncertainty and some inconsistency in completing the returns.

There was unanimous welcome for the support already provided to local authorities by the Government. The Chartered Institute of Public Finance and Accountancy (CIPFA) described it as "very welcome and very significant" and the County Councils Network (CCN) said the allocation of £4.6bn had been "quite an achievement", adding that the change of the basis of allocation for the fourth tranche to recognise deprivation had exceeded expectation. However, the LGA said they estimate there to be a "shortfall this year of £1bn, on what was already a tight situation" and the CCN said there was more work to do to cover income loss.

Additional Spending

Additional spending by local government in response to the pandemic is generated through various routes. As well as the normal essential services, the District Council Network (DCN) identified other work delivered by local government including the distribution of business grants, delivering food parcels to residents who are shielding, creating additional safe spaces for those suffering domestic abuse and involvement in some of the work that will aid the recovery, such as construction. The LGA told us that across all services extra spending has been necessary to mitigate staff shortages due to the pandemic and to make workplaces and working practices Covid secure.

Additional Spending - adult Social Care

There are other identifiable direct costs, for example the need for PPE in social care. Adult social care is the biggest single area of additional spending and was repeatedly identified as an area of concern and a fundamental issue for the sector. The LGA warned of "fairly significant additional costs", due to an ageing population and, as shown by the IFS in evidence, growing demand from younger adults. The Special Interest Group of Municipal Authorities (SIGOMA) said adult social care was a significant problem, warning that some of the additional spending in this area, for example, funding empty beds to keep providers in business, was financially unsustainable. Similarly, children's social care is expected to increase in demand, as well as in complexity of cases as a result of the pandemic.

It is over two years since our predecessor Committee produced a joint report on adult social care together with the Health Select Committee. Despite repeated commitments from Government, a long-term solution has yet to be announced, and the timing for this is more critical than ever. We again urge the Government to bring forward proposals for a long-term solution to the funding of adult social care.

Additional spending - homelessness

There was support during our evidence session for the early steps the Government had taken to address homelessness during the pandemic. However, both the LGA and DCN identified the ongoing costs of tackling this issue. The LGA said they had seen a stifling of the market for rented accommodation, reducing the traditional churn of accommodation and increasing costs. The Committee continues to keep the impact of the pandemic on homelessness and the private rented sector under review, and we intend to return to this issue in the coming weeks when we expect to further consider the issues that have been raised with us in evidence.

Additional spending has also occurred in less transparent ways: for example, the increased costs of dealing with waste from people working from home, which would normally be dealt with through commercial contracts in the workplace setting.

Income Loss
Local government is also suffering losses. This is due to local tax losses as well as lost income from sales, fees and charges, and commercial and other income sources. There was consensus around the forecast of £2.8bn of income loss, although given the timing of the forecast, the LGA warned that it might even be an underestimate.

There was support for the announcement of the Government's co-payment scheme to cover irrecoverable sales, fees and charges income in 2020-21, although CIPFA emphasised that the 75% income guarantee still leaves an £800 million gap for councils. One consequence of this scheme relates to the possible different support relating to leisure centre provision. There was concern about the disparity of treatment dependent on the whether the service is run directly by the local authority which would be subject to the scheme, or by a trust or other provider which would be subject to a less generous £100m fund announced by DCMS. While welcome, the overall adequacy of this latter fund was questioned. SIGOMA also highlighted the need for support to continue beyond the current financial year.

The Committee welcome the call by the CCN for the Government to work with local authorities who have problems due to commercial investments they have made. This is particularly the case for those that have been adversely impacted by decisions to invest in local infrastructure and regeneration, including those with ownership responsibilities for airports.

The issue of income loss was described by CIPFA as a "cumulative ticking time bomb", saying it was clear that, whilst losses have been deferred, there are going to be long-term losses in the collection fund on an accruals basis, resulting in bigger and bigger deficits. The DCN suggested that it was income loss that worried them the most, causing uncertainty and concerns over future sustainability. Ahead of the spending review, the DCN argue for the apportionment of the irrecoverable tax losses between central Government and local government, in order to avoid more significant cuts to the jobs and services that are delivered locally, while the CCN seek a guarantee that lost income shortfalls will be covered by central government.

Medium-term pressures
The LGA expressed that they were "really worried about next year, on which we have no certainty at all". They have set out in greater detail in their spending review submission, what they assess the requirements to be for next year. While agreeing on the short-term situation, CIPFA also agreed that "the medium-term pressures are the more significant". The IFS noted the areas likely to continue to impact finances in the medium-term including increased spending pressures, including increased social care demand, and continued loss of income, for example, from car-park charges. CIPFA suggest that some of the costs associated with the pandemic may be permanent and will need to be base-lined for coming years when considering the future settlement, to avoid additional in-year grant top-ups that the IFS suggest would otherwise be necessary. SIGOMA asked that the Government fulfils its commitment to reset the business rate system, which they thought would have a considerable effect on 'levelling up' areas that suffered most through austerity and the impact of the pandemic.

Long-term solutions

Looking at the longer term, the Committee will continue to consider the appropriateness and sustainability of the local tax base, and the development of the delayed Fair Funding Review. The Committee is concerned that the different timetables between central and local government on setting budgets mean that councils are already making financial decisions that could lead to unnecessary cuts to services due to the uncertainty of funding. This could include cuts to preventative work, recognised by the IFS as being important work in its own right, but also noting that cuts in this area would build up problems across the public sector for the future. While there was sympathy for the Chancellor in having to hold a delayed one-year spending round, our witnesses were keen to point out the cost this has for local government, including the negative impact on planning and decision making.

UK Shared Prosperity Fund

There was disappointment that details of the UK Shared Prosperity Fund, as a replacement for various streams of EU funding, are still not available. We were told that this funding will be incredibly important, not only in terms of value but also due to the local discretion it provides on spending. The Committee believes that the Government must urgently give full details of what the Fund will look like, how it will be funded and how it will be administered.

Test and trace and vaccine delivery

On 15 June we held a session to gain evidence of the early operation of the test and trace regime. The Committee continue to agree with the witnesses who said that local government should play a fundamental role in the test and trace system, and in delivering the vaccine when available. Public health and environmental health officers have a wealth of local experience and expertise which should be utilised to offer more effective outcomes and reduced costs.

Finally, the Committee wants to repeat its praise for those working in local government during the crisis. We agree with the evidence we heard from the LGA that "this crisis has demonstrated, time and time again, that local government can get things done and get them done faster".

The Committee therefore asks the Government:

- To commit to funding the full costs to local government of additional spending and income loss due to the pandemic in the current financial year, including the apportionment of the irrecoverable tax losses between central Government and local government;
- To provide as much certainty as possible to councils about future action to address the medium-term pressures as identified by the LGA in their submission, including outlining its proposals for resetting of business rates;
- To urgently bring forward proposals for a long-term solution to the funding of adult social care;
- To ensure that safe and secure accommodation is provided to all those threatened with rough sleeping; and
- To urgently give full details of what the UK Shared Prosperity Fund will look like, how it will be funded and how it will be administered.

We look forward to the Government showing its support for local government at the Spending Review.

I am copying this letter to the Chancellor of the Exchequer.

Yours
Clive.

Clive Betts MP
Chair, Housing, Communities and Local Government Committee