Department for Levelling Up, Housing & Communities

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Thank you for your letter of 13 December regarding further evidence to support your inquiry 'Financial Distress in Local Authorities'. I write to provide further details in the points raised in your letter.

Financial position of local authorities

1. You asked for an overview of the types of financial challenges councils are facing. First, I would like to reiterate how we monitor the financial health of councils. We do this on a regular basis, using a range of data as well as through extensive direct engagement. We have a set of internal models, which we have discussed previously with the Levelling Up, Housing and Communities Committee and the Public Accounts Committee. These models are similar to those that Chartered Institute of Public Finance and Accountancy (CIPFA) and others use. CIPFA's financial resilience model looks at things like inflexible spend, reserves and service pressure, and identifies local authorities that may be at higher risk or moving through the risk profiles. While data is essential to monitoring a nationwide system; data alone cannot show the entire picture in any given local authority. We use the data we collect to guide us towards the local authorities with whom we might have conversations.

2. Where failure has occurred, the reasons for this have been complex and are driven by a number of factors including ineffective leadership, risky commercial investments, poor culture, and poor accounting and financial practice. In July 2023 the Department consulted on *Best Value Standards and Intervention: A statutory guide for best value authorities*. The responses to this consultation are currently being analysed and I intend to publish statutory guidance on best value in the new year. The draft guidance provides examples of indicators of potential failure, drawing on recent interventions. These include Thurrock's Best Value Inspection Report, highlighting the lack of openness as a significant contributing factor to their failure, and Woking's External Assurance Review, drawing attention to the council's lack of capacity.

3. We have also, following the powers we have taken on capital investments through the Levelling Up and Regeneration Act, recently consulted on four public metrics on local authority borrowing. These new powers allow the government to intervene in a targeted and timely way specifically in response to risks arising from borrowing and investment practices, based on metrics designed to identify such risks.[1]

4. I would also like to take the opportunity to explain the important role of the Office for Local Government (Oflog) with respect to the financial position of local authorities. Oflog has not taken a view, nor been so far tasked to take a view on the overall financial challenges facing local authorities. What it has done and will continue to do, is publish key metrics on finance and service delivery that help better inform citizens, government and councils themselves where there might be risk of underperformance – subject to the caveat that neither Oflog nor government will make a judgement about the performance or financial health of an individual council without also talking to people who understand the local area. Separately, Oflog will be seeking to identify councils who may be at risk of serious failure of leadership, governance or culture (which can in turn create financial problems) and have not declared themselves to be at such risk. For local authorities that already consider themselves to have financial problems, DLUHC should continue to be the first port of call to discuss their options.

Local Government funding

5. You asked what support and advice the Department is providing to help councils plan for the medium term, beyond 2025. As I set out on 6 December, spending decisions beyond 2024-25 are a matter for the next spending review.

6. I can confirm that the provisional local government finance settlement for 2024-25, published on 18 December, makes available over £64 billion, an increase in Core Spending Power of almost £4 billion or 6.5% in cash terms on 2023-24. This includes an additional £2 billion of additional Government funding, including £1 billion for children's and adult social care. This above-inflation increase demonstrates how the Government stands behind councils across the country. This means that local government will see a real terms increase in Core Spending Power (the Government's measure of funding available to local government) over the period 2019-20 to 2024-25.

7. You also asked previously how we assess the amount of funding local authorities generally require. Ahead of fiscal events we estimate the additional resource required to fund the expenditure needs of local authorities. We use a range of forecasts and indices to estimate demographic and unit cost pressures facing local government. This includes considering the effect of inflation. This modelling is supported by holding in-depth financial conversations with local authorities and regular conversations with treasurer societies.

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[1] These metrics are: (1) The total of a local authority's debt (including credit arrangements) as compared to the financial resources at the disposal of the authority; (2) The proportion of the total of a local authority's capital assets which is investments made, or held, wholly or mainly in order to generate financial return; (3) The proportion of the total of a local authority's debt (including credit arrangements) in relation to which the counter-party is not central government or a local authority; (4) The amount of minimum revenue provision charged by a local authority to a revenue account for a financial year.

8. We will of course continue to monitor pressures on all councils. The Department stands ready to speak to any council that has concerns about its ability to manage its finances or faces pressures it has not planned for.

9. You also asked for figures for local authority funding after inflation. We do not routinely publish Core Spending Power figures after inflation, as deflators are subject to revision. In order to assist the Committee in your inquiry, I can confirm that the real terms increase in Core Spending Power from 2024/25 is 4.7%. We use inflation projections published by HM Treasury – the GDP deflator. Given the GDP deflator is forecast to be 1.7% for 2024-25, all local authorities will receive an above inflation increase in their Core Spending Power. The latest projections were published by HMT in November, following the Autumn Statement.[2] For comparison the OBR forecast for CPI inflation in 2024-25 is 3%.[3] I have also annexed the detailed figures in cash terms.

Adult Social Care Workforce

10. You asked about what effect the Government's announcement on migration rules will have on the social care work force. On 21 December, the Home Secretary published illustrative estimates of the immigration impact of the new package of legal migration measures, including on care worker visas. The Department will continue to work closely with DHSC to monitor wider effects of the changes on the adult social care workforce.

City of Bradford Children's Services

11. You asked for further details of the work my Department is undertaking with the Department for Education with regard to children's services in Bradford. Officials in both DLUHC and DfE continue to work closely with both the City of Bradford Metropolitan District Council and Bradford Children's and Families Trust. The Trust launched on 1 April 2023, taking over operational control of children's services from the Council following a long period of underperformance.

12. In line with policy DfE agreed to cover costs associated with trust infrastructure when directing the set-up of a children's trust and, as with previous children's trusts, they funded the set-up costs of the Bradford Children's and Families Trust. In addition, DfE have supported the additional costs associated with running a Trust, as well as a set of improvement-focused staffing and running costs to enable Bradford Children's and Families Trust to successfully launch and begin to transform services.

13. The DfE appointed Commissioner is supporting and challenging the progress and pace of improvement in Bradford. The Council have recently requested Exceptional Financial Support from DLUHC to help manage pressures, particularly in relation to children's services. My Department's officials are working closely with Council officers through this process.

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[2] https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-november-2023-autumn-statement

[3] https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/ and https://obr.uk/download/november-2023-economic-and-fiscal-outlook-supplementary-economy-tables/?tmstv=1701865687

Unaccompanied Asylum-Seeking Children in the Care of English Local Authorities

14. You asked for further details on the number of unaccompanied asylum seeking (UAS) children entering the care system and the effect this has on local councils' children's services. Department for Education data shows the number of UAS children in the care of English local authorities increased from 5,670 to 7,290 between 31 March 2022 and 31 March 2023. UAS children represented about 9% of all looked after children in England, compared to about 7% in 2022.

15. The Government recognises the effect the arrival of UAS children have had on local councils' children's services, and concerns about the sufficiency of placements for looked after children. The Government is providing support for councils to increase their own provision and reduce reliance on the private sector, through DfE's capital fund which will provide £259m in capital funding over the SR-period. The Government will work closely with councils to increase transparency around the costs of residential placements for children, as a precursor to wider commissioning and market shaping reforms being rolled out through Regional Care Co-Operatives. Other actions are also being taken to improve the sustainability of the market – including establishing the North East Fostering Pathfinder to improve the recruitment and retention of foster carers, and a joint Written Ministerial Statement has been issued between DLUHC and DfE to clarify the national policy position on planning applications for new children's homes.

16. The National Transfer Scheme is intended to ensure that there is a more equitable distribution of responsibility for UAS children between local authorities across the country and all local authorities with children's services are required to participate in the National Transfer Scheme. The Home Office provides local authorities with funding of either £114 or £143 per night for each UAS child; and is also currently providing an additional £6,000 payment for each UAS child transferred under the National Transfer Scheme within five working days from the care of Kent County Council (as the primary point of arrival).

Local Housing Allowance

17. The effect of restoring the LHA to the 30th percentile of local market rents next year will be that 1.6m households get around £800 more a year in housing support. This significant investment of £7bn over five years, taken together with the wider benefits uprating, will improve housing affordability for low-income households on benefits renting in the private sector, helping them afford their rent and reducing the risk of rent arrears and homelessness.

18. We have listened to the concerns of colleagues in local government including London Councils who suggest that restoring LHA to 30% of local market rents would save the public finances in London more than £100m each year.[4]

[4] Raise housing support to prevent 60,000 London renters becoming homeless, say boroughs | London Councils) (Autumn Statement 2023: LGA submission | Local Government Association

19. Increasing the LHA will have significant benefits across the country, particularly in areas where rents have increased significantly. This will put extra money in the pockets of families - for example, for households entitled to the 2-bedroom LHA rate this will mean an extra £29 a week in Birmingham, £29 a week in Merthyr Tydfil and in the Scottish borders, where rents have risen less steeply, an extra £17 a week.

20. Government will continue to monitor rental prices, and the Secretary of State for Work and Pensions has committed to reviewing the LHA annually. Our departments will continue to work closely together, but I cannot pre-empt that review.

Housing and Economic Needs Assessment – Cities and Urban Centres Uplift

21. We have not made any changes to the calculation of the urban uplift, and the uplift remains at 35%. In 2018, we introduced a standard method for assessing local housing need to make the process of identifying the number of homes needed in an area simple, quick and transparent. The standard method uses a formula to identify the minimum number of homes expected to be planned for in an area, in a way which addresses projected household growth, affordability and historic under-supply.

22. To support working towards our ambition to deliver 300,000 homes per year, in December 2020 we changed the formula to increase need in our 20 most populated urban areas to maximise use of existing infrastructure and to support development that reduces the need for high-carbon travel. The uplift in need within our biggest cities and urban centres in England also supports our wider objectives of regenerating brownfield sites, renewal and levelling up.

23. The formula was amended so that the local authorities containing the largest proportion of the 20 most populated cities and urban centres in England saw their assessed need uplifted by 35%. Further guidance on how the standard method, including the urban uplift, is calculated is set out in national planning guidance, which is available on gov.uk.[5]

Renter’s Reform Bill

24. The Renters (Reform) Bill will give tenants the right to request a pet that a landlord cannot unreasonably refuse. It will apply to assured tenancies in the private rented sector, including temporary accommodation. Emergency accommodation is unlikely to be an assured tenancy and therefore the new rules will not apply there. We do recognise how important pets can be to people with experience of rough sleeping, and to their recovery, and we encourage local authorities and those commissioning services to consider these specific needs when supporting people to recover from rough sleeping.

Move On Period for Recently Granted Asylum Claims

25. Finally, you requested an update on the move on period for recently granted asylum claims. Once someone is informed that their asylum claim has been granted, they get at least 28 days’ notice to move on from their asylum accommodation. Support is offered to

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[5] https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments

newly recognised refugees by Migrant Help and their partners, which includes advice on how to access Universal Credit, the labour market and where to get assistance with housing.

26. We recognise the number of individuals in the system and the clearance of the asylum backlog is adding pressure onto local authorities. We are therefore working with the Home Office on operational improvements to make sure that individuals and local authorities have the right information they need to support people following an asylum decision. This includes the implementation of Home Office LA Liaison Officers to provide a specific point of contact for local authorities for any urgent discontinuation related enquiries.

27. Home Office have shared relevant data in the form of ‘heatmaps’ and will continue to provide updated data to allow effective planning working with councils. There are also improvements planned to ensure local authorities receive early notification of those being granted and leaving Home Office Accommodation.

I hope that the Committee finds this information helpful.

With every good wish,

RT HON MICHAEL GOVE MP
Secretary of State for Levelling up, Housing and Communities
Minister for Intergovernmental Relations

Annex A: Illustrative Core Spending Power of Local Government, 2023-23 to 2024-25

Illustrative Core Spending Power of Local Government:	2023-24 £ millions	2024-25 £ millions
Settlement Funding Assessment	15,671.1	16,562.7
Compensation for under-indexing the business rates multiplier	2,204.6	2,581.3
Council tax requirement excluding parish precepts	33,984.3	36,062.2
Improved Better Care Fund	2,139.8	2,139.8
New Homes Bonus	291.3	291.4
Rural Services Delivery Grant	95.0	95.0
Social Care Grant	3,852.0	4,544.0
ASC Market Sustainability and Improvement Fund	562.0	1,050.0
ASC Discharge Fund	300.0	500.0
Services Grant	483.3	76.9
Grants rolled in	480.0	0.0
Funding Guarantee	133.3	196.5
Core Spending Power	**60,196.7**	**64,099.8**

Core Spending Power information for the period 2015-16 to 2024-25 is published on gov.uk: https://www.gov.uk/government/publications/core-spending-power-table-provisional-local-government-finance-settlement-2024-to-2025