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Housing, Communities and Local Government Committee

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Summary

In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the covid-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils' finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report.

The failure of successive Governments to properly fund social care, which consumes up to 70% of top-tier councils' budgets, is currently the most serious spending pressure on local government. A solution to the funding crisis alone could largely restore local government financial resilience. We are also concerned about the cuts to more discretionary services arising from councils' need to prioritise social care provision. We will consider these issues further in our inquiry into funding of adult social care.

The introduction of the Business Rates Retention Scheme (BRRS) in 2013 altered how councils were funded and was central to the Government's objective of making councils more self-sufficient. This trend is also evident in the increasing proportion of overall funding derived from council tax.

We support the principle of encouraging councils to be more self-sufficient, alongside devolving more powers to them, which we will explore in our upcoming report on devolution in England. Given the narrowness of the funding base of local government, we recommend that the Government devolve more revenue-raising powers to councils. With greater fiscal autonomy should also come more control over spending. Furthermore, we suggest that options be explored for reforming council tax and for reforming business rates, as the Government has promised, possibly by replacing them with a proportional property tax.

We note, however, that councils can never be wholly self-sufficient, as this would disadvantage councils in more deprived areas, and that therefore some funding equalisation will always be necessary. Plans to reform the BRRS through a "reset", which would result in more money being redistributed to councils with lower rates bases, and a reassessment of need, known as the Fair Funding Review, have been twice delayed. We recommend that both be completed as soon as possible. We also recommend that the Government allow councils to retain 75% of business rates from 2022, but so that this represents a net increase in funding, we urge it not to impose commensurate cuts to grant funding. The additional funding should then be put towards equalisation in a separate grant designed for this purpose. We urge the Government to clarify what level of funding equalisation it considers to be appropriate for local government.

The Government's short-term approach to funding local government has aggravated councils' financial instability. The last two spending reviews have been one-year settlements, and while we appreciate the reasons for this, it means local government has not had a multi-year settlement since 2015. Councils cannot manage their spending and borrowing without the medium-term funding certainty that multi-year funding settlements bring. We conclude that the next settlement must be a multi-year settlement.

The pandemic has placed an enormous additional burden on local government finances in the last year. The Government responded with substantial financial support that, according to some estimates broadly covers all covid-19 pressures for 2020–21, although doubt remains about the Government's commitment to covering future costs. We commend the Government for responding to this unprecedented crisis with such significant emergency funding. The effects of the pandemic will be felt for many years, however, and we recommend that the Government provide greater certainty about what future costs it intends to cover.

In recent years, some councils have sought to generate alternative sources of revenue by borrowing to invest in commercial property. Despite concerns that councils could become too dependent on such uncertain revenue streams, it is our view that commercial investment poses no obvious threat to local government financial resilience overall and that, where it has contributed to financial instability, the councils concerned must bear ultimate responsibility. In understanding local authorities' use of commercial investment, we must acknowledge that previous Governments encouraged councils to be more commercial.

Since the abolition of the Audit Commission, which had become overly bureaucratic and expensive, responsibility for local audit has become fragmented. Last year, the Redmond Review also concluded that the local audit market was deeply flawed and recommended a new regulator to oversee the sector. In response, the Government has proposed establishing a standalone unit, to act as a "system leader", within the new regulator of corporate audit, the Audit, Reporting and Governance Authority. We are pleased the Government has published its proposals for a new system leader, but it is not clear if the new unit will be able to join up individual auditor findings with a view to identifying systemic issues across local government. We also are not persuaded that a standalone unit within ARGA can provide the necessary specialism that local authority audit requires. Without a central body responsible for oversight of the sector, we see no way of ensuring a robust and transparent regime of local audit. We recommend the Government remove the ability of local authorities to choose their own auditors.

Under the Local Government Finance Act 1988, a Chief Finance Office must issue a report, known as a section 114 notice, if they conclude the council cannot balance its budget in-year. At that point, spending on all but essential services must stop. It is a statement that the council is in deep financial stress and requires assistance from central government. We conclude that the regime lacks intermediary measures that councils can use to flag up concerns. The Government should introduce an intermediary "yellow card" measure that a Chief Financial Officer could apply to force a council to confront much sooner the seriousness of its financial position. We also recommend that Chief Financial Officers report to both the Executive and appropriate scrutiny committees on a quarterly basis on the state of local authority finances and, in particular, draw attention to potential serious financial problems.

1 Introduction

1. Local government finances have been strained ever since the Coalition Government introduced its programme of deficit reduction in 2010 aimed at restoring the UK's public finances. Between 2010–11 and 2018–19, the core spending power of local government in England, as derived from grant funding and council tax, fell by 28.7% in real terms.[1] The majority of these reductions came between 2010 and 2015, but even with recent funding increases, including in the last spending review, local government has still experienced funding restraint in the last six years, with some authorities experiencing severe reductions in grant. At the same time, increased demand for services, particularly adult and children's social care, has intensified the funding pressures on local councils.

2. The covid-19 pandemic has further exacerbated the precarity of local government finances. In its recent report, *Local government finance in the pandemic,* the National Audit Office (NAO) calculated that, as of March 2021, covid-19 had cost local government £9.7 billion in lost income and additional costs. This is equivalent to 17.6% of revenue expenditure. It also found these costs had been unevenly distributed across local authorities, with district councils worst affected owing to their reliance on income-generating services.[2]

3. The evidence to our inquiry made plain the financial pressures on local authorities.[3] Core Cities UK described the situation as a "perfect storm" and said that without a long-term funding solution "the system cannot sustain itself".[4] According to Richard Watts, Chair of the Resources Board at the Local Government Association, a "double whammy of increased demand for the most expensive services, coupled with reductions in funding, has seen local authorities go into the covid crisis in a pretty weak position."[5] London Councils described "a gradually deteriorating position" and concluded that the situation was clearly "not sustainable in the long term".[6] According to researchers from Nottingham Business School, the "long-term and complex financial challenges besetting local government", if not addressed, "will continue to make an increasing number of authorities financially unsustainable."[7]

4. In addition to the national picture, a minority of councils are in such serious trouble they have approached the Ministry of Housing, Communities and Local Government

1 National Audit Office, Local authority investment in commercial property, (13 February 2020), p. 4
2 National Audit Office, Local government finances in the pandemic, (10 March 2021), p. 7
3 Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012); Core Cities UK (FSS0004); County Councils Network (FSS0008); Derbyshire County Council (FSS0006); District Councils Network (FSS0013); Local Government Association (LGA) (FSS0002); London Councils (FSS0014); Mr Dan Bates (Director at OnTor Limited (Private Limited Company)) (FSS0009); Mr Pete Carpenter (Corporate Director Resources at Peterborough City Council) (FSS0010); Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001); Society of County Treasurers (FSS0003); Special Interest Group of Municipal Authorities (FSS0007)
4 Core Cities UK (FSS0004)
5 Q2
6 London Councils (FSS0014)
7 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)

(MHCLG) for financial assistance,[8] and two, Croydon and Slough, have been forced to issue section 114 notices, in November 2020 and July 2021 respectively (see Annex for an account of the events in Croydon). Under section 114 of the Local Government Finance Act 1988, a Chief Finance Officer is required to issue such a notice if it appears to them that the expenditure of the authority in a financial year is "likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."[9] Once a council has issued a notice, spending on all but essential services must immediately cease. It is a statement that a council is in deep financial distress. Other than Croydon and Slough, the only council to have issued a notice recently was Northamptonshire, in 2018. More authorities could be added to the list of those serving section 114 notices.

Our inquiry

5. On 26 October 2020, we launched an inquiry into the 2020 spending review and local government finances. Our inquiry received 35 written submissions and we took oral evidence from the Chartered Institute of Public Finance and Accountancy (CIPFA), the Local Government Association, (LGA) the Institute for Fiscal Studies (IFS), the County Councils Network (CCN), the District Councils Network (DCN), the Special Interest Group of Municipal Authorities (SIGOMA), and the Minister for Regional Growth and Local Government, Luke Hall MP.

6. On 1 December 2020, following Croydon's section 114 notice, we launched a second inquiry, this time into local authority financial sustainability and the section 114 regime. That inquiry received 13 written submissions and took oral evidence from CIPFA, the LGA, representatives of Croydon Council and its external auditor, Grant Thornton, and the Minister.

7. The situation at Croydon was the trigger for the second inquiry, not its subject, and for this reason the events leading up to it are explored in an annex to this report; the inquiry itself was concerned with the overall factors undermining local government financial resilience and the general operation of the section 114 regime. Our report, which combines the two inquiries, also revisits issues raised and recommendations made in reports of our predecessor Committee, although we note that circumstances have changed, especially since the outbreak of the covid-19 pandemic.[10]

Structure of this report

8. In chapter 2 of this report, we discuss the increased demand for social care and its impact on councils' resources. In chapter 3, we explore the recent changes to how local government is funded, particularly the introduction of the Business Rates Retention

8 Ministry of Housing, Communities and Local Government, Guidance: Exceptional financial support for local authorities; as of 7 April, the Department had agreed support with eight authorities for the financial year 2020–21. In general, the Department has chosen to provide such assistance by agreeing capitalisation directions, allowing authorities to fund revenue expenditure from capital resources including capital receipts and borrowing.

9 Local Government Finance Act 1988

10 Health and Social Care and Housing, Communities and Local Government Committees, First Joint Report of Session 2017–19, Long-term funding of adult social care, HC 768; Housing Communities and Local Government Committee, Fifth Report of Session 2017–19, Business rates retention, HC 552; Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036; Housing, Communities and Local Government Select Committee, Eleventh Report of Session 2017–19, High streets and town centres in 2030, HC1010

Scheme (BRRS) in 2013 and the Government's use of one-year financial settlements. In chapter 4, we look at the impact of the covid-19 pandemic on local government finances and the Government's financial support package. In chapter 5, we examine councils' use of commercial investments to generate additional revenue streams. In chapter 6, we turn to the state of the local audit regime and the Government's response to the recommendations of the Redmond Review into local authority financial reporting and external audit. In the same chapter, we also assess the operation of the section 114 regime. Finally, in the annex, we explore the causes of Croydon Council's weak financial position.

2 Social care

9. In recent years, demand for social care services has grown significantly, for both children and adults.[11] Adult care pressures are the result in part of changing demographics, including an ageing population and an increase in the number of working-age adults with disabilities. The increased pressure on children's care is in part a result of an increasing number of children with complex needs. As councils have sought to prioritise spending in this area, so the funding available for more discretionary services has been significantly reduced.[12] In 2018, the NAO found that, between 2010–11 and 2016–17, whilst spending on adult social care had risen by 3.2%, spending on planning and development had fallen by 52.8% in real terms, spending on housing services and highways and transport by 45.6% and 37.1% respectively, and spending on cultural and related services by 34.9%.[13] Since far more people use these services than require social care, the cuts tend to be more visible and can fuel the perception that councils are not providing value for money.

10. The most recent financial settlement included an additional £300 million for social care and, as in previous years, permitted councils with social care responsibilities to levy a social care precept in 2021–22, on top of the permitted council tax increases. This year the precept has been set at 3%. We heard that this additional funding, though welcome, was not enough and that local government financial resilience depended on the Government implementing a sustainable funding solution to adult social care.[14] According to Richard Watts, the expense of meeting this demand is "stretching" local authorities to "breaking point", with social care spend now accounting for 60% to 70% of most top-tier councils' budgets.[15] A "sustainable solution to social care funding" would be a "game changer" and an essential first step in restoring local government finances.[16] One of the main causes of Croydon Council's financial weakness was its spend on adult and children's social care.[17]

11. Richard Watts concluded that once the sustainable social care settlement was in place "the rest of a sustainable funding model for local government in this country can fall into place relatively quickly."[18] Core Cities said the social care precept provided some "limited means to raise additional funding" but that it was "not sustainable", raised "different amounts of money in different parts of the country" and added "an extra financial burden on households." It welcomed the additional, un-ring-fenced grant funding for social care in the financial settlement, which will give councils "flexibility on how their allocations are best used locally", but said that £300 million was "not significant in comparison to the cost pressures that these vital services face." It also criticised the Government for predicating the majority of additional funding on increases in council tax and the social care precept, which "will place a significant financial burden on households at a time of economic uncertainty".[19]

11 Q2; Core Cities UK (FSS0004); Derbyshire County Council (FSS0006); Special Interest Group of Municipal Authorities (FSS0007); Society of County Treasurers (FSS0003); for more detail on the causes of changing demand for social care, see: The King's Fund, Social care 360: access
12 Local Government Association (LGA) (FSS0002)
13 NAO, Financial Sustainability of Local Authorities 2018, (8 March 2018), para 12
14 County Councils Network (FSS0008); Special Interest Group of Municipal Authorities (FSS0007)
15 Q4; Q45
16 Q8; Q45; the same point was made in the submission from the County Councils Network (FSS0008)
17 Q32
18 Q45
19 Core Cities UK (FSS0004)

12. In their 2018 joint report, *Long-term funding of adult social care,* a previous Health and Social Care Committee and our predecessor Committee explored options for reforming the funding of social care. The report concluded that local government funding could "only ever be one part of the solution for social care" and recommended the introduction of an earmarked contribution, known as the Social Care Premium, possibly paid as an addition to national insurance. It also recommended that under-40s be exempt and that consideration be given to a minimum earnings threshold.[20] We are exploring the long-term funding of adult social care in a separate inquiry.

13. **The failure to properly fund children's and adult social care, especially adult social care, is the single biggest threat facing local government financial resilience. Given that the cost of providing social care consumes between 60% and 70% of the budgets of top-tier councils, a solution to this funding crisis alone could largely restore local government finances. The Government's current policy of effectively forcing local councils to impose successive above-inflation council tax rises is imposing additional burdens on council tax payers. It is disappointing that the recent Queen's Speech made so little mention of plans to reform social care funding. We are also concerned about the cuts to more discretionary services arising from councils' need to prioritise social care provision.** ***We recommend that the Government urgently reform the funding of social care in England.***

20 Health and Social Care and Housing, Communities and Local Government Committees, First Joint Report of Session 2017–19, Long-term funding of adult social care, HC 768, paras 92–4

3 Funding

Making local government more self-sufficient

14. In the past 10 years, successive Governments have altered the way local government in England is funded. The overall effect has been to reduce the amount of funding from the centre, in the form of central grants, and increase councils' reliance on locally generated revenue, such as retained business rates, council tax and commercial revenue.[21] This policy of making local government more self-sufficient has encouraged many councils to offset funding reductions by generating alternative revenue streams or by growing business rates in their area.[22] We support this policy objective in principle and believe that devolving even more revenue-raising powers to local government could improve its financial sustainability, as our predecessor Committee concluded, in its report, *Local government finance and the 2019 Spending Review*.[23] This principle must take into account the varying abilities of local authorities to raise revenue. As we note in this report, with the devolution of such powers could also come greater control over how councils spend their money. Indeed, this aligns with the position of our predecessor Committee who, in the aforementioned report, expressed support for policies which allow local government to have more control of the revenue it raises and how it is spent.[24] We also note, however, that this greater emphasis on locally derived income has affected the financial resilience of authorities less able to raise revenue locally. In this chapter, we explore each of these issues in turn and suggest ways in which the local authority funding model could be reformed.

Business Rates Retention Scheme

How it works

15. Introduced in 2013, the BRRS is the third largest source of local government funding. It is also the principal mechanism by which central government seeks to equalise funding. Under the BRRS, local authorities retain 50% of business rates (the local share) and give 50% to central government (the central share). A system of tariffs and top-ups is then applied to each local share. Each authority either receives a top-up or pays a tariff, as determined by the difference between its "business rates baseline" (its average local share in 2011–12 and 2012–13) and its "baseline funding level" (the amount the Government believes it needs from business rates to deliver local services, as assessed in 2013). It follows that whether an authority is a tariff or a top-up authority, and the size of its tariff or top-up, is fixed and will remain so until each authority's business rates baseline is reset. In addition, each authority's 50% share of "additional business rates revenue" (anything over

21 Institute for Fiscal Studies, English local government funding: trends and challenges in 2019 and beyond, (November 2019), p. 6

22 For one example of a previous Government's stated commitment to making local government self-sufficient, see: Department for Communities and Local Government, Self-sufficient local government: 100% business rates retention, (July 2016)

23 Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036, para 118

24 Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036, para 63

the "business rates baseline"), known as "retained growth", is itself subject to a levy of between 0% and 50%. The purpose of this is to redistribute revenue away from councils that benefit disproportionately from business rates growth.[25]

Impact on needs funding

16. Before the introduction of the BRRS, funding to local government was partially equalised through the distribution of formula grants based on an assessment of councils' relative needs and ability to raise revenue locally, and these grants were funded from the total amount of business rates collected nationally. The BRRS has reduced the amount distributed in this way by halving the pot of money (the central share) from which central grants are funded and making the other half contingent on a council's ability to grow its business rates.[26] The DCN told us this emphasis on locally derived revenue had resulted in many councils growing their local economies and increasing their local tax base.[27] Broadland District Council and South Norfolk Council told us they had responded to reductions in central funding by growing their local economies and thereby benefitting from business rates retention.[28]

17. We were also told, however, that despite the partial redistribution of retained rates, the BRRS, by explicitly seeking to incentivise business rates growth, had reduced funding to councils with less growth potential. Newcastle City Council argued that the BRRS has benefited wealthier authorities and "resulted in a lower level of available funding to distribute towards needs formulae for deprived councils."[29] According to Derbyshire County Council, whilst rate retention was "intended to provide local authorities with the incentive to promote economic growth", there is "no correlation between growth in business rates and the demand for local government services".[30] Newcastle City Council said the BRRS "should recognise that local areas have different growth potential".[31]

Move to 75% rates retention

18. In 2015, the Government said it would allow councils to retain 100% of business rates, although this was revised down to 75% in 2017. Originally, the roll out to 75% retention was to begin in 2020–21, but this was postponed for a year in 2019 and then again in 2020 following the outbreak of the covid-19 pandemic. It is now due to be rolled out in April 2022. Since the central share of business rates funds the Revenue Support Grant (RSG), the Government has said that allowing councils to retain more rates will result in a corresponding reduction in the RSG. In fact, it intends to abolish the RSG altogether when 75% retention is rolled out.[32]

19. Councils' support for 75% retention was tempered by concern about the corresponding further reduction in the RSG and the consequent impact on the overall distribution of

25 Department of Communities and Local Government, Business rates: a step-by-step guide, (2013)
26 Department for Communities and Local Government, A guide to the local government finance settlement in England, (2013), para 6
27 District Councils Network (FSS0013)
28 Broadland District Council, South Norfolk Council (SRF0017)
29 Newcastle City Council (SRF0028)
30 Derbyshire County Council (FSS0006)
31 Newcastle City Council (SRF0028)
32 Department for Communities and Local Government, Self-sufficient local government: 100% business rates retention, (July 2016)

funds. Sheffield City Council warned that its expansion had "the potential to put further pressure on local authorities".[33] For this reason, it was argued that further rates retention should happen only if it means a net increase in core funding. The DCN said it should not be predicated on reductions in, let alone the abolition of, the RSG.[34] This chimes with the findings of our predecessor Committee's 2018 report, *Business rates retention,* which said local government "should be allowed to use the additional revenue gained from 75 per cent retention to fund existing cost pressures" and that there should be no corresponding cuts to the RSG.[35]

Delay to business rates reform

20. On the introduction of the BRRS, it was envisaged that councils' business rates baselines would be "reset" in 2020. A reset would involve each council's local share being recalculated on the basis of its current percentage share of overall rates revenue, rather than its share in 2011–12 and 2012–13. The purpose of a reset is to stop councils gaining or losing disproportionately over time according to their ability to grow their rates revenue. Like the extension of 75% retention, the reset has been twice delayed and is now also due to be implemented in April 2022. Closely related to the reset is the review of the underlying assessment of need, known as the Fair Funding Review, the purpose of which is to allocate new baseline funding levels to each council according to the demand for services in its areas, as well as other factors, including economic deprivation. Launched in 2016, the review was due to be implemented in 2020, but this too was postponed for one year in 2019 and then again in 2020 at the beginning of the covid-19 pandemic. Its implementation is due to coincide with the reset and 75% retention.[36]

21. We were told about the impact the delays to the reset and Fair Funding Review were having on some councils' finances. SIGOMA said the failure to reset business rates was having a disproportionate impact on its member councils. Despite the partial redistribution of additional revenue away from councils that see disproportionate growth, it said that in 2020–21 alone about £1.8 billion had remained with councils and that this had disadvantaged its members.[37] Sir Stephen Houghton, Chair of SIGOMA, said the time had come "for the Government to honour their promise and reset the business rates system."[38] Dan Bates, an accountant and local government finance specialist, agreed that the redistribution of business rates growth "tends to be inequitable".[39] In contrast, the DCN expressed concern that a reset could penalise those councils "who have worked tirelessly to grow their local economies".[40] The tension in the evidence is inherent in the BRRS itself. Its purpose is to incentivise councils to grow business rates in their area, and too frequent resets would diminish the incentive, but the longer the period between resets the greater the detriment to councils that, for whatever reason, have been unable to grow rates in their area. As our predecessor Committee concluded in its report, *Local*

33 Sheffield City Council (SRF0020)
34 District Councils Network (FSS0013)
35 Housing Communities and Local Government Committee, Fifth Report of Session 2017–19, Business rates retention, (April 2018), para 22
36 MHCLG, Business Rates Retention Reform: sharing risk and reward, managing volatility and setting up the reformed system, (December 2018); Reviewing and reforming local government finance, Standard Note SN07538, House of Commons Library, 3 August 2020
37 Special Interest Group of Municipal Authorities (FSS0007)
38 Q32
39 Mr Dan Bates (Director at OnTor Limited (Private Limited Company)) (FSS0009)
40 District Councils Network (FSS0013)

government finance and the 2019 Spending Review, "the business rate retention system is too complex and lacks transparency—the system attempts to create incentives for growth whilst also redistributing revenues according to need."[41]

22. We were told the Government also needed to implement the Fair Funding Review as soon as possible, though most understood the Government's reasons for the further postponement.[42] Derbyshire County Council said it had "dragged on now for a number of years" and still local government was "no further forward in understanding what the funding landscape will look like."[43] The Society of County Treasurers said the delay had "led to a further gap between funding for local authorities and their needs".[44] Core Cities also called on the Government to "resume the Fair Funding Review" but "with a guarantee that the transitional mechanisms will not only ensure that no councils experience a loss of income but also protect councils from reductions so that they can plan with confidence with a future three-year settlement."[45] The LGA echoed this concern.[46]

23. The Minister told us the Government had delayed the review in response to the pandemic and that "the vast majority of councils" had agreed with that decision, as neither they nor the Government had the "bandwidth" to give it sufficient attention. He said the Government would "let the dust settle after the pandemic" but assured us that reform remained "a clear policy commitment", as neither he nor the Secretary of State considered the current distribution mechanism to be the "fairest way to distribute resources". The Government wanted to first understand "the longer-term covid scarring impacts" on local government before bringing forward the review, "probably in the context of a forward spending review".[47]

24. **We agree with the principle of incentivising councils to grow business rates in their area, as a means of making them less reliant on central funding, but we are concerned about the impact on councils that, through no fault of their own, are less able to do this. As our predecessor Committee concluded, the Business Rates Retention Scheme is too complex in seeking to both incentivise growth and redistribute funding according to need. We are reassured that the Government remains committed to implementing the Fair Funding Review, which, along with the business rates "reset", could partly restore the link between funding and need, but in the long term we do not see how the BRRS can be the most sensible means of matching funding to need.**

25. **The question of the BRRS is closely related to the debate about the longstanding role of equalisation in how local government in England is funded. Whilst the purpose of equalisation is to ensure fairness between councils, there is little agreement on the appropriate level: 100% equalisation would provide local authorities with no incentive to build up their tax base, whereas no equalisation would leave some councils chronically underfunded through no fault of their own. The system of local government**

41 Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036, para 63
42 County Councils Network (FSS0008); London Councils (FSS0014); Core Cities UK (FSS0004); Local Government Association (LGA) (SRF0001);
43 Derbyshire County Council (FSS0006)
44 Society of County Treasurers (FSS0003)
45 Core Cities UK (FSS0004)
46 Local Government Association (LGA) (SRF0001)
47 Q61

finance should both enable councils to increase revenue by growing their tax base and protect those in more deprived areas. Rules about equalisation need to be transparent, comprehensible and predictable.

26. ***We recommend that the Government implement the Fair Funding Review and business rates reset as soon as possible, as the quickest way of partly restoring the link between funding and need. The Government should also allow councils to retain 75% of business rates from 2022, but so that this represents a net increase in funding, we urge it not to impose commensurate cuts to grant funding. The additional funding should then be put towards equalisation in a separate grant designed for this purpose. We also urge the Government to clarify what level of funding equalisation it considers to be appropriate for local government.***

Council tax

27. As grant funding has fallen, so the proportion of local government funding derived from council tax has risen. In 2009, council tax accounted for 40% of councils' revenue.[48] By 2018–19, that figure was 52%.[49] This trend is set to continue following the latest financial settlement. Of the projected increase in local government core funding of £2.2 billion, £1.9 billion is predicated on councils raising council tax rates, including the social care precept, by the maximum allowable, meaning the proportion of funding derived from council tax could be 61% in 2021–22.[50]

28. As councils have come to depend more on council tax, so the funding model for local government has become increasingly regressive. This is because, as our predecessor Committee concluded in its report, *Local government finance and the 2019 Spending Review*, council tax itself is regressive, with rates still based on property values as assessed in 1991, even though values have changed significantly since then and at different rates across the country.[51] It is estimated, for example, that in 2020 the average property in London was worth more than six times what it had been in 1995, whereas in the north-east that figure was barely three times what it had been.[52] In 2019, the Institute for Fiscal Studies (IFS) calculated that, even after accounting for council tax support, which reduces council tax liabilities for low-income families, the poorest tenth of the population pay 8% of their income in council tax, while the next 50% pay 4–5% and the richest 40% pay 2–3%.[53] In response to these concerns, some are now calling on the Government to replace council tax completely with a proportional property tax.[54]

29. If council tax is to be retained, we were told it should be based on contemporary property values and that council tax bands should be extended.[55] Our predecessor Committee's 2019 report recommended that the Government consider adding extra

48 Assessing England's 2021–22 Local government Finance Settlement, p. 3
49 Institute for Government, Local government funding in England, (March 2020)
50 Assessing England's 2021–22 Local government Finance Settlement, p. 3
51 Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036, paras 65–75
52 Institute for Fiscal Studies, Revaluation and reform: bringing council tax in England into the 21st century, March 2020,
53 Institute for Fiscal Studies, The tax system reduces inequality – but benefits do most of the heavy lifting
54 For example, see: Bright Blue, Home Truths: options for reforming residential property taxes in England, (2021)
55 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)

council tax bands at the top and bottom and "hold a review into how a revaluation could be implemented without dramatic increases for individual households."[56] We note, too, that in its recent report, *Tax after coronavirus*, the Treasury Select Committee recommended that the Government reform council tax in line with our predecessor Committee's recommendations.[57] As recent research by the IFS has identified, however, under a reformed council tax some councils in more deprived areas could end up losing revenue.[58]

30. Perhaps more importantly, the overreliance on council tax is unfair on more deprived areas as the ability to raise income this way bears no relation to need and raises less in more deprived areas.[59] There is, as SIGOMA explained, "a clear and widening gap that exists, between councils with relatively low demand for services and high … tax bases compared to councils with high service demand and relatively low council tax and business rates."[60] Derbyshire County Council explained that authorities had "long argued the distributional impacts" and that "authorities in the more affluent areas" could "raise substantially more through council tax income compared to authorities in those deprived areas."[61] We note, however, that, in the short term at least, the distributional unfairness of the council tax increases in this year's financial settlement has been mostly neutralised by the targeting of the £300 million grant for social care towards councils with lower council tax bases.[62]

31. **We are pleased that the allocation of the £300 million grant for social care mitigates the distributional impact of the council tax rises, but we do not think the fairness of the funding model should be reliant on one-off, short-term grants. It is right that certain councils be compensated for low council tax bases, but this should be done through a more predictable means of funding equalisation. Council tax is also an increasingly regressive tax that again penalises those in more deprived areas. A revaluation is long overdue. In the longer term, one possibility that could be considered is a proportional property tax.**

32. ***The Government should reform council tax by undertaking a revaluation of properties and introducing additional council tax bands, in line with the recommendations of our predecessor Committee. In the longer term, the Government should consider options for wider reform of council tax and business rates, including possibly replacing them with a proportional property tax.***

56 Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036, paras 74–75

57 Treasury Committee, Twelfth Report of Session 2019–21, Tax after coronavirus, HC 664, para 208

58 Institute for Fiscal Studies, Revaluation and reform: bringing council tax in England into the 21st century, (March 2020)

59 Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012); District Councils Network (FSS0013); Special Interest Group of Municipal Authorities (FSS0007); Derbyshire County Council (FSS0006); Mr Pete Carpenter (Corporate Director Resources at Peterborough City Council) (FSS0010); Core Cities UK (FSS0004); Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001); UK Women's Budget Group (SRF0038)

60 SIGOMA (SRF0025)

61 Derbyshire County Council (FSS0006)

62 Institute for Fiscal Studies, Assessing England's 2021–22 Local government Finance Settlement, (December 2020), p. 7

Devolution of revenue-raising powers

33. We heard that local government in England relied on a much narrower tax base than its counterparts overseas.[63] As a result, there is concern about the sustainability of funding, especially in the light of the covid-19 pandemic, which has drastically reduced revenue from council tax and business rates.[64] CIPFA said covid-19 had "exposed the weaknesses of these limited funding sources" and that in the future "the funding system may need to look very different."[65] Researchers from Nottingham Business School said that "to generate long-term stability" the Government should "introduce a longer-term, more fundamental change to local government finance arrangements".[66] Richard Watts said council tax had "been used as a tactical device" because it was "easily available" but that it was "not the right long-term solution" and that the public would "only stomach twice-inflation council tax rises for so long."[67] For these reasons, much of the evidence warned that a more fundamental overhaul of the funding model was the only way to restore local government financial resilience.[68]

34. One way the Government could widen the revenue base of local government is by giving councils greater flexibility to raise money through local taxes and other charging mechanisms.[69] As our predecessor Committee concluded, "[d]evolution of more responsibilities and revenue-raising powers to local government has the potential to improve the financial sustainability of the sector".[70] London Councils asked for "a broader range of revenue raising powers and flexibilities, rather than being too dependent on one particular tax."[71] The County Councils Network (CCN) said councils needed "greater freedom to determine their own financial response to financial challenges" and called for a "full range of fiscal devolution measures that will widen the options open to councils and also give them greater freedom to influence economic activity in their areas."[72] The CCN and DCN called for council tax referendums to be scrapped.[73] The DCN called for councils to be given more control over business taxes and raised a specific concern about the ability of second-home owners to register their domestic properties for business rates, rather than council tax, and then claim 100% small business rates relief, thereby denying

63 District Councils Network (FSS0013); Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)

64 London Councils (FSS0014); Derbyshire County Council (FSS0006); Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012); Local Government Association (LGA) (SRF0001)

65 Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012)

66 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)

67 Q45

68 Q45; London Councils (FSS0014); Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)

69 London Councils (FSS0014); Society of County Treasurers (FSS0003); County Councils Network (FSS0008); Core Cities UK (FSS0004); District Councils Network (FSS0013); Central London Forward (SRF0037); Southwark Council (SRF0009)

70 Housing, Communities and Local Government Committee, Eighteenth Report of Session 2017–19, Local government finance and the 2019 Spending Review, HC 2036, para 118

71 London Councils (FSS0014)

72 County Councils Network (FSS0008)

73 County Councils Network (FSS0008); District Councils Network (FSS0013)

councils any revenue at all.[74] As the Society of County Treasurers noted, however, giving councils more "control over local tax raising ability", though helpful, "both locally and nationally may not be deemed acceptable in all cases."[75]

35. Our predecessor Committee's report, *High streets and town centres in 2030*, recommended that the Government consider reforming business rates by finding a way of taxing online retailers.[76] We heard again that such a tax, as well as being fairer, could help to make local government finances more secure. Norfolk County Council called on the Government "to address fundamental issues in the business rates system including the under-taxation of online retailers" and noted that "traditional 'bricks and mortar' businesses bear a disproportionate share of the burden." It thought the tax base was "arguably overly dependent on a relatively small number of businesses and places" and that this resulted in "much greater risk, volatility and fragility within the system."[77] Core Cities UK, Central London Forward and London Councils all agreed that reform of business rates should include a mechanism for taxing online sales and that this would make revenue more sustainable.[78] We will explore possible reforms to business rates in more detail in our upcoming report on supporting our high streets after covid-19.

36. **The funding base of local government in England is very narrow. As the pandemic has highlighted, revenue derived from council tax and business rates is also insecure. As concluded by our predecessor Committee, greater fiscal autonomy could contribute to local government financial resilience.**

37. ***We recommend that the Government widen the funding base of local government to make it less vulnerable to shocks such as the covid-19 pandemic, including by giving councils more flexibility over local taxes and other revenue-raising powers. This would also align with giving local authorities more powers over spending, which we will consider in our future report on devolution in England. Giving local government more powers to raise and spend money is a position supported by our predecessor Committee. We also recommend that the Government reform business rates, in particular by finding a mechanism by which to level the playing field between bricks-and-mortar and online retailers. This is an issue we will return to in our upcoming report on supporting high streets after covid-19.***

Multi-year spending reviews

38. In response to the pandemic, the Government resorted last year to a one-year spending review. This followed the one-year spending round in 2019. This means local government has not had a multi-year financial settlement since 2015. On few points was there as much agreement in our evidence as on the importance of multi-year spending reviews and financial settlements.[79] Richard Watts told us that a four-year funding settlement would

74 District Councils Network (FSS0013)
75 Society of County Treasurers (FSS0003)
76 Housing, Communities and Local Government Select Committee, Eleventh Report of Session 2017–19, High streets and town centres in 2030, HC1010, para 76
77 Norfolk County Council (SRF0003)
78 Core Cities UK (FSS0004); London Councils (FSS0014); Central London Forward (SRF0037)
79 Norfolk County Council (SRF0003); Solace (SRF0006); Special Interest Group of Municipal Authorities (FSS0007); County Councils Network (FSS0008); London Councils (FSS0014); Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012); Core Cities UK (FSS0004); Society of County Treasurers (FSS0003); Derbyshire County Council (FSS0006)

be "vital if we are going to have some sort of sound basis to plan for the future."[80] London Councils told us the long-term funding issues had been aggravated by the Government's short-term approach to funding settlements and called on the Government to deliver a multi-year spending review that "provides sufficient resources to stabilise the sector".[81] As CIPFA explained, "longer-term planning and greater financial certainty improves financial sustainability and resilience in the public sector" while "one-off grants and single-year spending reviews do not provide a foundation for confidence."[82]

39. When pressed on this point, the Minister acknowledged the "universal view from local government that multi-year settlements are preferable" and "the importance of that to councils when planning and setting budget support planning." Having explained it would "take time for the dust to settle", however, he then concluded: "I hope that, when we come to the settlement next year, it will be a multi-year one. I understand that that is the hope of the Chancellor as well, but he will set out his plans for spending reviews in the usual way in due course."[83]

Proliferation of one-off and short-term grants

40. In its 2018 report, *Financial sustainability of local councils*, the NAO found that local government funding since 2015 had been "characterised by one-off and short-term funding streams and initiatives, often introduced at relatively short notice."[84] The previous Public Accounts Committee (PAC) came to the same conclusion in its 2019 report, *Local government spending*, and noted that such funding arrangements do not represent value for money.[85] We heard the Government's habit of delivering central funding through these small and sometimes ring-fenced grants, often involving competitive bidding processes, rather than through the RSG, was impeding their ability to set budgets.[86] They are generally less predictable and, where they involve a bidding process, can be a drain on councils' time and resources. Ring-fenced grants also reduce councils' ability to decide for themselves how to spend their money. The LGA told us councils needed the ability to plan financially without the "added burden of navigating a complex and fragmented funding landscape".[87] The Society of County Treasurers said the Government's policy of funding social care through "one-off or time-bound grants" was undermining councils' "ability to address the large funding gap that each year is resulting in overspends and draws from reserves, which in itself hampers longer term planning further."[88] The DCN criticised "the plethora of short-term and one-off grant funding" and suggested that they all be rolled into the RSG. It also said that the "bureaucratic bidding processes", rather than matching funding to need, rewarded "authorities with the capabilities for writing bids".[89]

41. In his speech to the LGA's 2021 annual conference, the Secretary of State for Housing, Communities and Local Government, Rt Hon. Robert Jenrick MP, referred to the Levelling

80 Q45
81 London Councils (FSS0014)
82 Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012)
83 Q62
84 National Audit Office, Financial sustainability of local councils 2018, (8 March 2018), p. 59
85 Public Accounts Committee, Seventy-Sixth Report of Session 2017–19, Local government spending, HC 1775, p. 5
86 Local Government Association (LGA) (FSS0002); London Councils (FSS0014); District Councils Network (FSS0013); Society of County Treasurers (FSS0003)
87 Local Government Association (LGA) (FSS0002)
88 Society of County Treasurers (FSS0003)
89 District Councils Network (FSS0013)

Up Fund and Community Renewal Fund, and acknowledged "that these funds bring challenges to local councils" and said he wanted "to ensure there are fewer competitions in the future" and "more consolidated opportunities to access government funding".[90]

42. **We understand the Government's reasons for resorting to a one-year spending review last year, but we note it followed a one-year spending review in 2019 and that the last multi-year spending review came in 2015. Local government cannot manage its spending and borrowing without the medium-term certainty that multi-year funding settlements bring. If the next spending review is not a multi-year settlement, the recovery of local authority finances after the covid-19 pandemic will be impeded. We are pleased that the Minister acknowledged the importance of multi-year settlements to local government but note he expressed only the hope that the next one would be a multi-year settlement.**

43. **The proliferation in recent years of small, often one-off and ring-fenced grants, sometimes involving a competitive bidding process, and the uncertainty around such funding, can hinder robust financial planning and management by local authorities, as has been acknowledged by the Public Accounts Committee. Ring-fenced grants also limit councils' flexibility to match spending to need. Reducing their number would give councils greater control over spending and would be consistent with our previous recommendation that councils be given great revenue-raising powers.**

44. ***The next financial settlement for local government must be a multi-year settlement. The Government should also consolidate the number of small and ring-fenced grants, which can limit local authorities' ability to provide services flexibly, and should reduce the number of bidding processes, which can be burdensome and time consuming.***

90 Local Government Association annual conference 2021: Secretary of State's speech

4 Covid-19

Impact on local government finances

45. The covid-19 pandemic has placed an enormous additional burden on local government finances in the last year. According to the NAO report, *Local government finance in the pandemic,* local authorities estimate the cost of covid-19 to their finances in 2020–21 to be £9.7 billion. Of this, £6.9 billion is from increased costs, including the delivery of new programmes and services, and £2.8 billion from lost income, including lost sales, fees and charges (SFC), lost commercial income, and lost council tax and business rates.[91]

46. Our inquiry heard about the uneven impact of covid-19 across different types of authority. London Councils estimated the cost of covid-19 on London boroughs in 2020–21 to be £2.2 billion, half of that arising from increased spending and the other half from lost income, particularly the loss of sales, fees and charges, council tax and business rates.[92] According to the DCN, shire districts incurred additional expenditure of £209 million, excluding that incurred by districts with their own council housing stock, and lost £394 million in SFCs and £87 million in commercial income.[93] As highlighted in a recent observation from the IFS, shire districts lost far more in SFCs as a percentage of their revenue expenditure than other councils.[94]

47. Core Cities UK told us that covid-19 had had "asymmetric impacts on places and people" and had "hit the economies of big cities and city centres particularly hard." It attributed the "disproportionately negative effects on Core Cities" to "the concentrations of businesses in big cities" and described a "double whammy" of rising costs and "plummeting incomes from business rates and non-payment of council tax." Among the extra costs, it listed housing homeless people, delivering free school meals to vulnerable children at home, distributing funding to small businesses and local track and trace services. It estimated the overall cost to the eight English cities it represents to be £1.2 billion.[95]

48. The LGA highlighted the "devastating impact" that covid-19 had had on councils that normally derive considerable income from their local airports, such as Manchester City Council, the other Greater Manchester councils and Luton Borough Council.[96] Richard Watts repeated this point on behalf of the LGA in oral evidence: "It would be remiss not to mention councils like Luton and the Manchester authorities, which were very financially entwined into airports for very good, long-standing reasons, for which I would not criticise those councils at all. They have been hit very hard".[97] In oral evidence, the Minister, too, recognised the exceptional circumstances facing these councils, particularly Luton.[98]

91 National Audit Office, Local government finance in the pandemic, (10 March 2021), p. 7
92 London Councils (FSS0014)
93 District Councils Network (FSS0013)
94 Institute for Fiscal Studies, Observation, 19 March 2021
95 Core Cities UK (FSS0004)
96 Local Government Association (LGA) (FSS0002)
97 Q4
98 Q64

Government support

49. As we heard, the Government has responded to the pandemic by providing substantial financial support to local authorities. The main elements of this support are: various grants, in particular a £3.6 billion general-purpose grant; a sales, fees and charges compensation scheme, covering 75% of all SFC losses below 95% of what councils had expected to raise before the pandemic; and a guarantee to cover 75% of lost council tax and business rates revenue in 2020–21, worth an estimated £800 million. The SFC scheme has now been extended to cover the first quarter of the new financial year.

50. In the last few months, both the NAO and the IFS have analysed the adequacy of the support and concluded that it broadly covers all covid-19 funding pressures arising in 2020–21, although, according to the IFS, the support has fallen unevenly. It estimated that 106 councils appear to have received more funding in 2020–21 than they had forecast for in-year pressures, whilst the remaining 233 councils are collectively under-funded by a total of around £800 million. Shire districts, in particular, are likely to face budget shortfalls.[99]

51. The evidence to our inquiry welcomed the Government's financial support, but there was a general concern over the lingering impact of the pandemic and the extent of the Government's commitment to covering all future costs.[100] The DCN described the financial support from central government as "substantial" but thought there was "a long road ahead". It welcomed the Government's commitment to underwrite 75% of irrecoverable business rates and council tax losses for 2020–21 but was worried that under the definition of "irrecoverable losses" not all council tax losses would be covered.[101] SIGOMA also welcomed the government support but warned that the "residual impact of covid may last for many years".[102]

52. London Councils told us the Government should fully fund additional spending pressures and compensate for all lost income. It called the Government's emergency funding of £1.6 billion for London boroughs an "unprecedented intervention" but said it would still fall far short of what was needed.[103] Richard Watts from the LGA called on the Government to fund all irrecoverable lost income, though he acknowledged it would be a while before the full cost would be known.[104] Core Cities UK welcomed "the Government's commitment to work with local government on the lasting impact of the C19 pandemic" but called on it to cover in full "the financial challenge facing councils" as a result of the pandemic, including "funding for cost pressures and full compensation for lost income and local tax losses."[105]

53. When asked about the support package, the Minister told us the money the Government had provided to cover councils' increased expenditure in 2020–21 "far

99 Institute for Fiscal Studies, The government has addressed most of the short-term COVID-19 financial pressures facing English councils, but problems loom in 2022–23 and beyond; National Audit Office, Local government finance in the pandemic, (10 March 2021)
100 District Councils Network (FSS0013); Special Interest Group of Municipal Authorities (FSS0007); Mr Pete Carpenter (Corporate Director Resources at Peterborough City Council) (FSS0010); Derbyshire County Council (FSS0006); County Councils Network (FSS0008)
101 District Councils Network (FSS0013)
102 Special Interest Group of Municipal Authorities (FSS0007)
103 London Councils (FSS0014)
104 Q45
105 Core Cities UK (FSS0004)

exceeds what councils are going to spend" and that the Government was confident it had provided the income support required through its compensation schemes, although he promised to keep this "fluid situation" under review. He also acknowledged that covid-19 pressures had not been "uniformly distributed" and that some councils might need particular support, through no fault of their own.[106] In our one-off session on the Department's Annual Report and Accounts 2019–20, when asked about the commitment to fund future cost pressures, Jeremy Pocklington, the Permanent Secretary, highlighted the additional support for the first quarter of 2021–22. When pressed, however, on the Department's plans to support councils beyond June, he said he did not want "to get too far into hypothetical questions" and that the Department did "not have specific plans in place in terms of exactly what decisions we would need to take."[107]

54. **The Government deserves credit for having responded to an unprecedented crisis with significant emergency funding that, from a national perspective, broadly covers all the additional financial pressures consequent on the pandemic and lockdowns in 2021–22. The effects of the pandemic will be felt for many years, however, and we are concerned that the Government has not committed to covering costs arising in future years, including from lost council tax and business rates. We are concerned, too, that some local authorities have been worse hit than others, particularly shire districts, and that some of these councils, even with the additional government funding, will still be left out of pocket. The disproportionate impact on local authorities will not assist the Government's levelling up agenda.**

55. ***We urge the Government to consider ways of mitigating the uneven financial support across local authorities and provide greater certainty to councils over what future costs incurred as a result of the pandemic it intends to cover.***

106 Qq56–57
107 Oral evidence taken on 19 April 2021, HC 1216, Qq7–8

5 Local authority commercial investment

Commercial investment and borrowing for yield

56. In recent years, local councils have made increasing use of cheap borrowing from the Public Works Loan Board (PWLB) to invest in commercial property with a view to generating revenue. In its report, *Local authority investment in commercial property*, the NAO estimated that local councils spent £6.6 billion on commercial acquisitions between 2016 and 2019, a fourteenfold increase on the preceding three years, and that as much as £6 billion might have been financed through borrowing. It also found that the practice was concentrated in a small but growing number of authorities and that nearly all identified yield as an important motivation.[108] It warned that such income was "uncertain over the long term" and that authorities could become "significantly dependent on commercial property income to support services."[109]

57. The rules governing the purposes for which local councils may borrow for commercial investment are set out in CIPFA's prudential code. Councils can borrow for commercial investment to meet a service or regeneration need. As Rob Whiteman, CEO of CIPFA, told us, "local authorities are public institutions that borrow to support services and regenerate their local economies" and this can involve "some appropriate use of borrowing for commercial purposes". Councils can be "innovative and creative" and "invest in local regeneration and transport infrastructure", but as revenue budgets tightened, some councils started to "reinterpret the rules" and borrow in advance of need. In CIPFA's view, this practice, known as "borrowing for yield", does contravene the code.[110]

58. The Government agrees that borrowing primarily for yield is an inappropriate use of the PWLB and in November 2020 revised its lending terms. Its stated aim was "to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now." According to the new lending terms, finance directors must now confirm that "there is no intention to buy investment assets primarily for yield at any point in the next three years."[111] At the same time, though, in evidence to our inquiry, the Minister was clear that the Government still thought commercial investment could be "appropriate and necessary when it is done well."[112]

59. Despite the recent criticisms of local government commercial investment, much of the evidence to our inquiry emphasised the benefits. Dan Bates, an accountant and local government finance specialist, cautioned against "assuming that all commercial property investment is necessarily bad" and thought that while the Government and CIPFA "have expressed concerns with this income stream", with "high-profile cases of bad investments" being used "to justify this stance", insufficient consideration was being given to "good investments and their contribution to local authority funding."[113]

108 National Audit Office, Local authority investment in commercial property, (13 February 2020), pp. 7–8
109 Local authority investment in commercial property, p. 5
110 Q6
111 HM Treasury, Public Works Loan Board: future lending terms (Response to the consultation), (November 2020), pp. 2–3
112 Q72
113 Mr Dan Bates (Director at OnTor Limited (Private Limited Company)) (FSS0009)

60. Many local councils now consider commercial investment an important and legitimate part of the local government financial system and object to the whole sector being judged according to the behaviour of a small minority.[114] London Councils argued that "commercial property investment by local government is balanced and subject to significant internal and external scrutiny" and that any "steps to curb perceived excessive risk taking in the sector must be developed in close consultation with the sector so as to avoid dampening much needed investment in local areas".[115] The DCN strongly defended commercial investment, arguing that, having been "encouraged to be innovative and self-sufficient", councils "developed new income streams to replace lost funding" and "maintain vital core services and project jobs without increasing the burden on the taxpayer".[116]

61. We were also told that commercial investment was not a cause of local government financial instability. London Councils said that commercial investment decisions, whilst sometimes a factor, were "never the sole reason" for financial failure.[117] According to researchers from Nottingham Business School, risky commercial investments "exacerbate and intensify" the structural funding issues but are not "fundamental causes of these problems". They said that while borrowing for yield was a significant problem in a minority of councils, it could not be said to be undermining the local government financial system overall and that even where councils had done it, it was not the primary cause of their financial difficulties.[118] This conclusion is supported by our examination of the circumstances at Croydon Council (see Annex).

62. The evidence to our inquiry indicated that only a small minority of councils were behaving irresponsibly. As Rob Whiteman told us, "the vast majority of councils have not borrowed for yield" and "have followed the prudential code as it has always existed." Richard Watts agreed that a "small number of councils" were "doing a lot of this so-called commercial borrowing" but that most councils were "not going anywhere near it."[119] The Society of County Treasurers said it was "not typical" of the sector.[120] Local and central government agreed on this point. The Minister talked of "a minority of councils that have been taking excessive risks with taxpayers' money and becoming overly indebted in pursuit of commercial income.[121]

Oversight and the role of central government

Data

63. Under the prudential framework, which governs local government borrowing and investment, the Department has overall policy responsibility for monitoring the commercial activities of local councils. It has been heavily criticised in recent years, however, for failing to take the problem seriously. In particular, the NAO and the PAC

114 Society of County Treasurers (FSS0003)
115 London Councils (FSS0014)
116 District Councils Network (FSS0013)
117 London Councils (FSS0014)
118 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)
119 Q6
120 Society of County Treasurers (FSS0003)
121 Q72

have repeatedly highlighted the inadequacy of the Department's data gathering.[122] Last year, the PAC said the Department had "effectively been flying blind" and that it needed to "get a grip on this in the future."[123] In response to questioning, the Minister told us the Department was "undertaking a review to make sure we have the data that we need". He continued: "We have to be able to understand the trends and drivers of this type of risk and investment in councils, and the associated longer-term effects on financial stability for councils. We want to improve that data."[124]

Councils encouraged to be more self-sufficient

64. Despite the Government's criticisms of some councils' commercial investments, we were told that former Ministers, particularly in the Coalition Government, had actually encouraged them to be more commercial in response to funding cuts.[125] As noted earlier, making local government self-sufficient was the explicit policy of previous Governments.[126] The Society of County Treasurers told us: "Over the last decade councils have been actively encouraged by Government to seek out commercial ventures to supplement shortfalls in funding."[127] According to Richard Watts, from the LGA, "between 2010 and 2015–16, the view of the Secretary of State was that councils should seek to replace lost grant with income from commercial borrowing" and that the Government considered this "a legitimate way for councils to substitute the grant they have lost because of the programme of spending reductions."[128] When asked whether previous Governments had encouraged councils to be more commercial, the Minister could only reply: "I would not comment on the language that Ministers before me and the Secretary of State have used about commercial investment."[129]

Reform of the PWLB's lending terms

65. Many submissions welcomed the reforms to the PWLB's lending terms.[130] Richard Watts thought they had "landed us about in the right place" and that the sector should "allow those to bed in before seeing whether they need further reform."[131] Pete Carpenter, from Peterborough City Council, argued that councils had been encouraged to invest in commercial property by the recent low PWLB interest rate and welcomed "the

122 Public Accounts Committee, Twenty-Sixth Report of Session 2016–17, Financial sustainability of local authorities, HC 708; Public Accounts Committee, Eleventh Report of the 2019–21 Session, Local authority investment in commercial property, HC312; National Audit Office, Local authority investment in commercial property, (13 February 2020)

123 Public Accounts Committee, Eleventh Report of the 2019–21 Session, Local authority investment in commercial property, p. 16

124 Q84

125 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001); District Councils Network (FSS0013)

126 Department for Communities and Local Government, Self-sufficient local government: 100% business rates retention, (July 2016)

127 Society of County Treasurers (FSS0003)

128 Q7

129 Q73

130 Society of County Treasurers (FSS0003); Mr Pete Carpenter (Corporate Director Resources at Peterborough City Council) (FSS0010); Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012); Richard Watts, Q15; Rob Whiteman, Q21

131 Q15

reclassification of what PWLB finance can be used to fund".[132] Rob Whiteman listed reform of the PWLB as one of the prerequisites of clamping down on irresponsible borrowing, although CIPFA's written submission called for "a period of stability to enable local authorities to support economic regeneration post-covid", adding that "additional uncertainty" would "hamper longer term planning."[133]

66. In contrast, accountant and local government finance expert Dan Bates told us that policies such as withdrawing access to the PWLB from councils that invest in commercial property "should be based on a fuller analysis of the facts rather than isolated examples of poor investments."[134] London Councils said it was concerned by the "indirect tightening of central control over local authorities' capital programmes" and that it did not "consider PWLB lending terms to be the right mechanism for adjusting the operation of authorities' statutory powers."[135] The DCN called the changes to the PWLB lending terms "disproportionate" and described commercial investment as "a wider investment in the economic wellbeing of the area".[136] Somewhere in the middle, Core Cities UK thought the new interest should be halved for prudent schemes within a local authority's area to incentivise responsible investment.[137]

Prudential framework

67. Apart from the lending terms of the PWLB, MHCLG has overall policy responsibility for the framework of principles governing local authority borrowing and investment, known as the prudential framework, but has been criticised in recent years for the quality of its oversight. In its report, *Local authority investment in commercial property,* the PAC said the Department appeared "blind to the level of exposure of the local government sector to sectoral commercial risks" and called on it to "be more active in its oversight of the prudential framework".[138] In response, the Government set out a series of reviews and initiatives designed to "ensure that the Department remains effective in its role as stewards of the local government capital system".[139]

68. An underlying principle of the prudential framework is that local authorities are best placed to make borrowing and spending decisions in their areas.[140] The evidence we received supported the autonomy that the Department's approach enabled. CIPFA described the prudential framework as "key to local authority decision making" and said it gave councils the "freedom to invest in areas such as regeneration and housing". It argued that if councils were "to play a central role in rebuilding post-covid communities during the next five years, it must remain active and have the flexibility to make local

132 Mr Pete Carpenter (Corporate Director Resources at Peterborough City Council) (FSS0010)
133 Q21; Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012)
134 Mr Dan Bates (Director at OnTor Limited (Private Limited Company)) (FSS0009)
135 London Councils (FSS0014)
136 District Councils Network (FSS0013)
137 Core Cities UK (SRF0023)
138 Public Accounts Committee, Eleventh Report of Session 2019–21, Local authority investment in commercial property, HC 312, para 1
139 Letter from Jeremy Pocklington to Chair of the Public Accounts Committee, October 2020
140 HM Treasury, Public Works Loan Board: future lending terms (Response to the consultation), (November 2020), para 1.1

decisions."[141] London Councils supported MHCLG's approach to oversight, as it provided councils with the autonomy they needed, and argued "against any changes in response to perceived risks of commercial investment by the department".[142]

Prudential code

69. CIPFA's prudential code, which forms one part of the prudential framework, sets out the rules governing capital investment by local councils and its purpose is to ensure that capital investment plans are affordable, prudent and sustainable. Among other things, the code sets out how much an authority may borrow and for what purposes. Currently, however, authorities need only have regard to the code. According to Rob Whiteman, compliance should be made a statutory duty. "If it was the law or regulation", he told us, "the onus would not only be on the section 114 to sign this off from an accounting perspective"; the "leader, the chief executive and the cabinet" would also "all have a corporate responsibility to follow these regulations".[143]

70. **Commercial investment appears to pose no clear threat to local government financial resilience overall, and where it has contributed to financial instability, the councils concerned must bear ultimate responsibility. We also welcome the Government's reforms to the PWLB's lending terms, which are a useful clarification of the purposes for which PWLB loans can be used. In understanding local authorities' use of commercial investment, we must acknowledge that previous Governments encouraged councils to be more commercial.**

71. **Furthermore, whilst we welcome the Minister's commitment to gathering the best quality data to better understand councils' exposure to commercial investment, we think this should have been done by now. We are also concerned about the lack of a statutory requirement on local councils to comply with the prudential code.**

72. ***We recommend that the Government legislate to make compliance with the prudential code by local authorities a statutory duty. The Government should also make good on its commitment to improving the data it collects on local authority commercial investment.***

141 Chartered Institute of Public Finance and Accountancy (CIPFA) (FSS0012)
142 London Councils (FSS0014)
143 Q21

6 Audit and control

Local audit

73. The current local audit regime was established by the Local Audit and Accountability Act 2014. The Act abolished the Audit Commission and replaced it with a regime that permitted local authorities to procure their own private audit services locally.[144] The Government believed the commission had become overly bureaucratic and expensive.[145]

74. In June 2019, following criticisms of the operation of the new regime, including from the PAC,[146] and delays to the completion of 200 of the 487 local public body accounts in 2018–19, MHCLG commissioned Sir Tony Redmond to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. Redmond, whose final report was published on 8 September 2020, found that the local audit market was "very fragile". In particular, he found that oversight of local audit was fragmented as "none of the six entities with responsibility for the different elements of the framework has a statutory responsibility, either to act as a system leader or to make sure that the framework operates in a joined-up and coherent manner."[147] To remedy this, he recommended the creation of "a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit."[148] He also proposed that this new "system leader" produce annual reports on the state of local audit, with a view to joining up audit findings and identifying trends and problems across local government.[149] In its response, the Government said it was "not currently persuaded that a new arms-length body is required".[150]

75. In March 2021, following completion of the evidence-gathering stage of our inquiry, the NAO published its report, *Timeliness of local auditor reporting on local government in England, 2020*, in which it outlined the persistence of serious weaknesses in the local audit regime. In particular, it raised concerns about the late delivery of many audit opinions and the consequent impact on financial planning and about the lack of qualified local authority auditors.[151]

76. These findings were supported by the evidence we had already taken for our inquiry. Richard Watts from the LGA, describing the audit market as "beyond fragile" and "broken", said the "elephant in the room" was that "there are simply not enough auditors".[152] Rob Whiteman , CEO of CIPFA, and Sarah Ironmonger, director of audit at Grant Thornton, agreed there was a skills shortage. The latter thought it was "fair to say that the pool of people with the experience and skills to do local government audit is fairly

144 Explanatory notes to the Local Audit and Accountability Act 2014
145 Departmental press release, Audit Commission abolition on course to save taxpayers over £1 billion, (March 2014)
146 Public Accounts Committee, Eighty-Fifty Report of Session 2017–19, Auditing Local government, (15 March 2019)
147 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, (September 2020), p. 10
148 Ibid, p. 3
149 Ibid, p. 5
150 MHCLG, Local authority financial reporting and external audit: government response to the independent review, para 68
151 National Audit Office, Timeliness of local auditor reporting on local government in England, 2020, (March 2021), pp. 6–7
152 Qq17–18

limited".[153] Researchers from Nottingham Business School, describing the audit regime as "no longer fit for purpose", said that "understanding about local authority performance and value for money" had "significantly deteriorated" since the abolition of the Audit Commission.[154] Rob Whiteman, whilst not wishing to see the commission restored entirely, thought that in abolishing it the Government had "thrown the baby out with the bathwater", particularly the role of an independent local auditor. He added that "public bodies should not appoint their own auditors."[155] In contrast, Richard Watts from the LGA told us local government did not "mourn the loss of the Audit Commission", which was "very expensive and bureaucratic" and "had overstepped its reach".[156]

77. Croydon Council told us that the Audit Commission, though not perfect, had performed an important function that was now missing from local audit. Chris Buss, the interim Chief Finance Officer, whilst "not suggesting that we recreate the Audit Commission as it finished up", said it had at first served a useful purpose in providing an "overview" and "guidance to auditors". Katherine Kerswell, interim CEO, added:

> As a young chief executive, I knew that if I got a phone call from the chief executive of what was then the Audit Commission you sat up straight and you took that call. It mattered. Their oversight and view really mattered. All of that is lost to us now. We do not want what we had back, but we need something. We have a vacuum at the moment, and it is really dangerous for us as a sector.[157]

78. The Minister agreed that "a robust local audit system and transparent financial reporting" was "absolutely key for delivering value for money for taxpayers and supporting sound investment". On the question of a new regulator, however, he said the Government was "looking at the full range of options that might be available to ensure long-term stability of the audit market" but that it did "not want an overcentralised, overly bureaucratic system" and wanted "to explore potential alternatives that may not require a slot for primary legislation and that potentially do not necessitate a new body".[158]

79. In March 2021 the Government published a White Paper setting out its plans to reform corporate audit, reporting and governance. The White Paper set out details of how the Government proposed to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the Financial Reporting Council (FRC).[159] In May 2021, shortly before the publication of our report, the Department announced its proposals for establishing a local authority audit system leader. It agreed that "a clearly accountable system leader with overarching responsibility is needed to make sure the local audit framework operates in a coherent and joined up manner" but said it still did "not believe the creation of a new arm's length body is needed to achieve this."[160] Instead, it said it would establish a standalone unit within ARGA to oversee local audit, including the Code of Local Audit Practice, which is currently the responsibility of the NAO. Responsibility

153 Q136
154 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)
155 Qq17–18
156 Q17
157 Q135
158 Q86
159 MHCLG, Restoring trust in audit and corporate governance, (March 2021)
160 Letter from Jeremy Pocklington to Chair of the Public Accounts Committee, (19 May 2021)

for contract and procurement management would remain with PSAA (Public Sector Audit Appointments), however, as the Government believes that combining the regulatory and procurement functions could result in a conflict of interest.[161] In recent evidence to the PAC, the Department also accepted the recommendation in the Redmond Review that the system leader produce annual reports on the state of audit across local government and said it wanted to build this into the new system.[162]

80. **As highlighted in Sir Tony Redmond's independent review of local authority audit, the local audit market is deeply flawed. We are particularly concerned about the shortage of specialist local auditors, about the principle of allowing local councils to choose their own auditor and about the lack of a co-ordinating body responsible for monitoring the performance of auditors and joining up auditor findings across the country. We are pleased the Government has now announced its plans for instituting a new audit system leader, and we can see the argument for separating regulation and procurement. We are also pleased that the Department has accepted the recommendation in the Redmond Review that the new system leader produce annual reports on the state of local audit, although it is not clear to what extent it will be able to join up individual auditor findings with a view to identifying systemic issues across local government. We also note that the new Audit, Reporting and Governance Authority, in which the standalone unit will sit, is being set up primarily to audit the private sector. Given that local authority audit is different from private sector audit, in that it must consider such additional matters as public interest and value for money, it remains to be seen if a standalone unit within ARGA can provide the necessary specialism that local authority audit requires. We have concerns that the Government has not established a regulator along the lines suggested in Sir Tony Redmond's independent review, rather than as a standalone unit within another regulator.**

81. ***We recommend the Government remove the ability of local authorities to choose their own auditors. The risk is that auditors will be reluctant to flag up potential problems for fear of losing their contract. The Government should consider who will be best placed to appoint local authority auditors, given that it should not be local authorities themselves, and ARGA doing so could lead to a conflict of interest. We also ask the Government to confirm that the new system leader will be able to join up individual auditor findings with a view to identifying systemic issues across local government. Without a central body responsible for oversight of the sector, we see no way of ensuring a robust and transparent regime of local audit.***

Section 114 regime

82. As already noted, under section 114 of the Local Government Finance Act 1988, a Chief Finance Officer is required to make a report, known as a section 114 notice, if it appears to them that the expenditure of the authority in a financial year is "likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."[163] Once a council has issued a notice, spending on all but essential services must immediately cease. It is a statement that a council is in deep financial distress and requires assistance from central government. In the last few years, three councils have issued section 114

161 MHCLG, Local authority financial reporting and external audit: Spring update

162 Oral evidence taken before the Public Accounts Committee on 20 May 2021, HC (2021–22) 1292, Q28 [Catherine Frances]

163 Local government Finance Act 1988

notices: Northamptonshire in 2018, Croydon in 2020 and Slough in July 2021, shortly before publication of our report. Before that, Hackney, in 2000, was the last council to issue a section 114 notice.

83. A section 114 notice is not itself a cause of financial instability but rather a "late distress signal"[164] and "an outward and public manifestation"[165] of longstanding financial weakness. That said, the consequences of issuing a notice can be extremely serious for a council. Richard Watts said it was "a very difficult step for a council to take" and that the "consequences and ramifications of that are very bad." He pointed out that Northamptonshire had been scrapped as a single council. According to Watts, the message this sent—that section 114 notices were "best avoided at all costs"—has ensured "very significant engagement by local authorities under real financial pressure to effectively take the kinds of measures you would undertake in a section 114 process, but without formal issuing of the notice." He said that notices were "rare" and that this was evidence that the regime was "broadly" effective.[166]

84. We were told, however, that fear of issuing a notice should not prevent councils from issuing one sooner rather than later. Rob Whiteman from CIPFA told us that, whilst everyone wanted to avoid notices, "if they cannot be avoided, they should be served as quickly as possible" and that, if they are served quickly, it should be viewed not "as a failure", but as "a council taking control of what it wants to do." He highlighted the cases of Camden and Hackney, both of which were able to turn themselves around because they issued notices in time. Conversely, the best value inspection report on Northamptonshire Council had "wondered whether, had the notice been served two years earlier, Northants might have avoided going down the road it did."[167]

85. Speaking about Croydon Council's recent experience, Hamida Ali, the council leader, told us that issuing a section 114 notice had been "a really important step in taking back control of a financial position that had become unsustainable."[168] She called it "a very important moment, because it was a signal of our recognition of the situation" and "extremely necessary at the point at which it was issued." She expressed concern, however, about the lack of clarity around the process arising from its rarity. In particular, the council had been unclear on whether it needed to issue a second notice after 21 days.[169] In the end, it did, although, as Rob Whiteman explained, it is not necessary for a council to issue more than one in the same financial year.[170]

86. Crucially, the representatives of Croydon Council also thought the council should have issued a notice sooner. Katherine Kerswell, the council's interim Chief Executive, said that "having issued the notice much earlier in the year would have given the council" much more time to control the expenditure in-year and reduced the need for Government support. Hamida Ali, who was a cabinet member at the time, effectively agreed when she said it was "a legitimate question" whether the council had acted soon enough.[171] As

164 Professor Peter Murphy (Professor of Public Policy and Management at Nottingham Business School); Dr Peter Eckersley (Senior Research Fellow at Nottingham Business School); Katarzyna Lakoma (Research Associate at Nottingham Business School); Bernard Kofi Dom (Associate Lecturer at Nottingham Business School) (FSS0001)
165 Special Interest Group of Municipal Authorities (FSS0007)
166 Q42
167 Q42
168 Q102
169 Q106
170 Q36
171 Q107

Katherine Kerswell also noted, the best value report into Northamptonshire had suggested that that council should also have acted earlier. She partly blamed the regime itself for making it difficult for councils to take the necessary steps and questioned whether it was still fit for purpose:

> It was designed in quite a different time, and there were other mechanisms that sat alongside it to give councils, and particularly the statutory officers, the ability to ensure that councils stayed within financial balance. The world has really moved on, and it is too blunt an instrument now.[172]

87. Chris Buss, the interim Chief Finance Officer, agreed that the regime was out of date, describing it as "an instrument of its time" and explaining that when it was first introduced, in 1988, there had been "lots of other protections around for local government", including "specific capital controls", "an organisation that was responsible for looking after local authority audit", "a surcharge for councillors if they misbehaved themselves in terms of overspending" and the "protection for statutory officers". With the exception of some "limited protections for statutory officers", those protections have been "wiped away", leaving local government with "a very blunt instrument". He concluded with a helpful analogy:

> I would probably describe it in footballing terms. If you are a referee, you go straight to a red card with a 114. There needs to be some form of yellow card, a warning mechanism. There is not. You go literally straight to the red card and there is no intermediate step, because there is no other control around. It needs to be looked at.[173]

88. Katherine Kerswell then provided a compelling explanation for why the decision to issue a notice is so difficult:

> Because it is so rare and because it is that red card moment, as a governance mechanism and a warning mechanism, it is really very absolute. Everything stops; all the expenditure stops. As the leader said, our staff were worried about their pensions and their pay. It was an enormous wash-over. It was not an easy mechanism to use to enable us to manage our budgets very, very effectively. There needs to be something different. People are incredibly anxious, as chief officers, thinking, "Should we move a section 114 notice?" I was interim chief executive at Nottingham City Council during last summer, and there was lots of discussion about whether this was necessary and whether it was a possibility for the council. There was real anxiety about going there, because of what it represented to the residents and to staff. We really need something better to enable us, as chief officers, to flag the warnings that need to be flagged and control expenditure in a much better way than we can at the moment when things get as tough as this.[174]

89. **The absence of section 114 notices before 2018 is adduced as evidence that the regime has been broadly successful. The consequences for a council of issuing a notice are serious, however, and we are concerned that, rather than concentrating minds, the regime might be hindering good financial management, as it lacks intermediary**

172 Q108
173 Q108
174 Q109

measures that councils can use to flag up concerns. Croydon Council delayed issuing a notice for fear of the negative publicity and the statement it would make about its financial position. Northamptonshire Council also delayed. We believe that an intermediary "yellow card" measure that could be applied by the Chief Finance Officer might have forced these councils to confront much earlier the seriousness of the problems facing them.

90. ***We recommend that the Government consider changing the section 114 regime to provide Chief Finance Officers with intermediary measures that can be applied at a much earlier stage to highlight concerns before a council's finances deteriorate so far as to require a section 114 notice. We also recommend that Chief Finance Officers report to both the Executive and appropriate scrutiny committees on a quarterly basis on the state of local authority finances and, in particular, draw attention to potential serious financial problems.***

Annex: Croydon Council

A case study in local authority financial instability

1. We launched our inquiry into local government financial resilience following the issuing of a section 114 notice by Croydon Council, but the inquiry itself was not into the situation at Croydon itself. It is worth exploring what happened at Croydon, however, as it offers an example of how some of the factors discussed in our report played out in the real world. It also draws out another factor contributing to local government financial instability that our report does not touch on: financial mismanagement.

Timeline – Croydon Council

2. **Mid-2020** – following a period of sustained financial instability, Croydon Councils approaches MHCLG informally for financial assistance. Over the next few weeks, several senior figures, including the Chief Executive and Council Leader announce their resignations.

3. **23 October 2020** – Grant Thornton, the council's external auditor, publishes a highly critical report on the council's financial position and governance.[175] In response, the Government commissions Chris Wood, former Chief Executive of Newham Council, to lead a non-statutory rapid review of the council's governance, culture and risk management.

4. **11 November 2020** – faced with a predicted budget shortfall of between £30 million and £67 million by the end of 2020–21, the council's Chief Finance Officer issues a section 114 notice.

5. **23 November 2020** – PwC produces a strategic review of the council's commercial subsidiaries, principally Brick by Brick, the arm's length property development company the council established in 2015 to support the delivery of high-quality affordable homes.[176]

6. **1 December 2020** – the Chief Finance Officer issues a second section 114 notice.

7. **Mid-December 2020** – the council formally requests a £150 million capitalisation direction from the Government. After discussions with CIPFA, it is agreed that no further section 114 notice will be necessary for the current financial year. At the same time, the council publishes a renewal improvement plan and financial recovery plan.

8. **1 February 2021** – Chris Wood's rapid review, produced in November, is made public.[177] It is highly critical of the previous council leadership.

9. **18 January 2021** – MHCLG appoints an improvement and assurance panel, led by Tony McArdle, as recommended by Chris Wood's rapid review. The purpose of the panel is to provide external advice, challenge and expertise to the council in developing and implementing its improvement plan; and to provide assurance to the Secretary of State of the council's progress in delivering this plan.

175 Grant Thornton, London Borough of Croydon: Report in the Public Interest concerning the Council's financial position and related governance arrangements, (October 2020)
176 PwC, Independent strategic review of Brick by Brick Croydon Ltd, Growth Zone, Croydon Affordable Homes LLP, the Revolving Investment Fund and the Asset Investment Fund, (November 2020)
177 Chris Wood, Non-statutory review: London Borough of Croydon, (November 2020)

10. **Mid-February 2021** – Katherine Kerswell, the interim CEO, suspends four executive directors following receipt of a still-unpublished report by independent inspector Richard Penn, produced with assistance from the Local Government Association, into senior management actions between April 2017 and September 2020. Two of the directors resign soon after.

11. **Early March 2021** – the Government issues a capitalisation direction allowing the council to borrow £70 million in 2020–21 and £50 million in 2021–22 and to use the money to support its revenue budget position.[178] The decision means the council can balance its budget and will not have to issue another section 114 notice.

12. **25 March 2021** – Hamida Ali, the recently appointed Council Leader, Katherine Kerswell, the interim CEO, Chris Buss, the interim CFO, and Sarah Ironmonger, director of audit at Grant Thornton, appear before our Committee.

Causes of Croydon Council's financial instability

13. There is little debate about the main causes of Croydon's financial failure. All the witnesses, including the council's representatives, as well as the rapid review and the report in the public interest attributed it to a combination of the council's risky commercial strategy, its failure to make savings, its low reserves and, most importantly, its financial mismanagement and inability to stick to budgets. In addition, there is general agreement that one factor beyond the council's control contributed to, though did not cause, its financial position: the large number of unaccompanied asylum-seeking children in the borough. The local authority in which an unaccompanied asylum-seeking child (UASC) first presents themselves is normally responsible for their care. Since an asylum intake unit is situated in Croydon, this places a particular financial burden on Croydon Council that is not fully covered by the additional money the Government makes available.[179] According to Katherine Kerswell, the council receives £18 million a year from the Government, which is £7 million to £8 million short of what it needs.[180] Richard Watts agreed the council faced "specific challenges" from having to care for a large population of UASCs and that this "did ramp up its costs", as this extra responsibility was "not fully funded".[181]

14. The Grant Thornton report in the public interest detailed Croydon's deteriorating finances since 2017–18 and criticised the council for failing to implement its recommendations in previous reports. In particular, it criticised the council's "unsustainably low level of reserves", its significant overspends over the previous three years on children's and adult social care, and its approach to borrowing and investment, which it said had "exposed the Council and future generations of taxpayers to significant financial risk".[182]

15. In 2018, the council set up an asset investment fund (AIF) to fund non-residential property investment. Asset purchases accounted for under the AIF included the Croydon Park Hotel (£31.3 million) and the Colonnades leisure park (£53.5 million). The council

178 MHCLG, Croydon capitalisation direction, (March 2020)
179 Q32; Q152; Q155
180 Q155
181 Q32
182 Grant Thornton, London Borough of Croydon: Report in the Public Interest concerning the Council's financial position and related governance arrangements, (October 2020)

originally forecast a return on its AIF assets of £2.4 million for financial year 2021–22. It is now forecasting a return of £82,000.[183] Following the purchase of the Croydon Park Hotel, Simon Hall, the cabinet member for finance and resources, said:

> This purchase will enable us to bring in additional income to the council, securing a new revenue stream to fund core services. At a time where government grant funding for local authorities continues to fall, we have to look at new and innovative ways to ensure we can provide services to residents. This purchase is one way to do it.[184]

The Croydon Park Hotel went into administration in June 2020.

16. The PwC report accepted that the failure of these investments was partly down to the covid-19 pandemic, although the report by Grant Thornton concluded that they "were not grounded in a sufficient understanding of the retail and leisure market and have again illustrated that the Council's strategy to invest its way out of financial challenge rather than pay attention to controlling expenditure on core services was inherently flawed."[185] The same report also states: "The Council's governance and oversight of the companies shows insufficient rigor and control. Despite heavy investment from the Council, the Council has not yet received any significant return."[186]

17. In 2015, the council established an arm's length commercial subsidiary, Brick by Brick, with the stated aim of supporting the delivery of high-quality affordable housing. The council borrowed money from the PWLB and then lent it to the company. The initial business case envisaged that the company would build and sell properties and generate income for the council through the payment of dividends. The Grant Thornton report found that, as of October, the company had borrowed £200 million from the council, which had borrowed it from the PWLB, but repaid nothing.[187] The company attributes its poor performance to the covid-19 pandemic and other issues that have delayed development, although the PwC report, which found that the company had "significantly underperformed", dismissed the pandemic as an excuse, since the 2019–20 reporting year ended on 31 March. In perhaps its harshest criticism on this point, the report found:

> As of October 2020, the delays in bringing new homes to the market has put the Council at serious financial risk and resulted in only a handful of new homes being available. As a consequence, savings have not been made. The severity of this situation has not been exposed until late in 2020, as the formal controls that should have been in place were absent.[188]

18. On the council's overall commercial investment strategy, the Grant Thornton report found:

183 PwC, Independent strategic review of Brick by Brick Croydon Ltd, Growth Zone, Croydon Affordable Homes LLP, the Revolving Investment Fund and the Asset Investment Fund, (November 2020), p. 21
184 Croydon Council news story, Council to purchase hotel in drive to generate income for frontline services, (August 2018)
185 Grant Thornton, London Borough of Croydon: Report in the Public Interest concerning the Council's financial position and related governance arrangements, (October 2020)
186 Ibid, p. 3
187 Ibid, p. 12
188 PwC, Independent strategic review of Brick by Brick Croydon Ltd, Growth Zone, Croydon Affordable Homes LLP, the Revolving Investment Fund and the Asset Investment Fund,(November 2020), p.8

> The Council has increased the level of borrowing significantly in recent years (£545 million in three years) and used the borrowing to invest in companies it established and to purchase investment properties. The strategy for investing in properties was approved at Full Council using guillotine procedures meaning there was insufficient time to discuss and challenge the strategy and the first purchase was made two months prior to approving the strategy. The Council's approach to borrowing and investments has exposed the Council and future generations of taxpayers to significant financial risk. There has not been appropriate governance over the significant capital spending and the strategy to finance that spending.[189]

19. We heard in our inquiry how the council's low reserves, its failure to make savings and its risky commercial strategy were connected. According to Rob Whiteman from CIPFA Croydon had a strategy for years "to invest in town centre regeneration in order to increase its tax yield". Although this meant running down its reserves, the council thought "it would get more council tax and more business rates income from a regenerated town centre", but "events caught up with that" and "the extra tax yield did not come through quickly enough". As a result of this strategy, the council also neglected to do "other things that were needed in order to balance the books", such as reducing the cost of services, which were "quite expensive". He thought the council had "scope to make savings" but probably felt it did not need to because it "had a strategy of regeneration that would mean they could avoid cuts." He concluded: "Croydon bet the bank on regeneration."[190] Richard Watts agreed with Whiteman's interpretation.[191] In turn, Hamida Ali, the council leader, agreed with their "collective analysis".[192]

20. The problem went deeper than the council's commercial strategy. According to Rob Whiteman, its investments did not breach the prudential code; the issue was with the execution.[193] This points to the most profound failure at the council: financial mismanagement. Richard Watts said the council's "core problem" was that there "was not a culture of compliance with budgets".[194] The report in the public interest described the council's oversight of its wholly and partly owned subsidiaries as lacking rigour and control and said the council's repeated failure to deal with the budget gap showed "a failure of governance" and "a lack of understanding of the urgency of the financial position".[195] It accused the council of "collective corporate blindness to both the seriousness of the financial position and the urgency with which actions needed to be taken."[196] The rapid review came to the same conclusion, finding that the council "had significant failings in leadership and management (particularly in the sphere of financial management) and its governance and assurance mechanisms have failed in identifying, escalating and addressing risk."[197]

189 Grant Thornton, London Borough of Croydon: Report in the Public Interest concerning the Council's financial position and related governance arrangements, (October 2020)
190 Q31
191 Q41
192 Q104
193 Q35
194 Q32
195 Grant Thornton, London Borough of Croydon: Report in the Public Interest concerning the Council's financial position and related governance arrangements, (October 2020)
196 Ibid, p. 3
197 Chris Wood, Non-statutory review: London Borough of Croydon, (November 2020), para 2.1

21. Hamida Ali and Katherine Kerswell accepted the findings of the report in the public interest. Ali agreed that the council's financial oversight had been inadequate and that the leadership had failed to take the auditor's concerns seriously.[198] She also said the failure had been "corporate" and permeated "all parts of the organisation".[199] As a full cabinet member through the period in question, she also told us: "I fully accept my responsibility as a cabinet member at the time".[200] She acknowledged that lack of financial resilience and poor governance were the reasons for Croydon's financial failure. She also accepted that the council had a track record of not sticking to budgets and that this had been "partly cultural".[201] She neatly summed up the whole of Croydon's failure:

> We thought we could absorb the impact of the reduction in local government funding that we had experienced and protect residents from that impact, so we did not make the savings we should have done, which we are looking to make now. When you combine that with the failure by us to keep within our budgets, particularly around adult social care and children's social care, and the absence of a culture of rigorous financial compliance, those had a compounded effect on our financial resilience. When the impact of covid came and some of our strategies did not deliver, we just were not able to withstand the shock of that.[202]

198 Q130
199 Q133
200 Q112
201 Q131; Qq137–138
202 Q104

Conclusions and recommendations

Social care

1. The failure to properly fund children's and adult social care, especially adult social care, is the single biggest threat facing local government financial resilience. Given that the cost of providing social care consumes between 60% and 70% of the budgets of top-tier councils, a solution to this funding crisis alone could largely restore local government finances. The Government's current policy of effectively forcing local councils to impose successive above-inflation council tax rises is imposing additional burdens on council tax payers. It is disappointing that the recent Queen's Speech made so little mention of plans to reform social care funding. We are also concerned about the cuts to more discretionary services arising from councils' need to prioritise social care provision. *We recommend that the Government urgently reform the funding of social care in England.* (Paragraph 13)

Funding

2. We agree with the principle of incentivising councils to grow business rates in their area, as a means of making them less reliant on central funding, but we are concerned about the impact on councils that, through no fault of their own, are less able to do this. As our predecessor Committee concluded, the Business Rates Retention Scheme is too complex in seeking to both incentivise growth and redistribute funding according to need. We are reassured that the Government remains committed to implementing the Fair Funding Review, which, along with the business rates "reset", could partly restore the link between funding and need, but in the long term we do not see how the BRRS can be the most sensible means of matching funding to need. (Paragraph 24)

3. The question of the BRRS is closely related to the debate about the longstanding role of equalisation in how local government in England is funded. Whilst the purpose of equalisation is to ensure fairness between councils, there is little agreement on the appropriate level: 100% equalisation would provide local authorities with no incentive to build up their tax base, whereas no equalisation would leave some councils chronically underfunded through no fault of their own. The system of local government finance should both enable councils to increase revenue by growing their tax base and protect those in more deprived areas. Rules about equalisation need to be transparent, comprehensible and predictable. (Paragraph 25)

4. *We recommend that the Government implement the Fair Funding Review and business rates reset as soon as possible, as the quickest way of partly restoring the link between funding and need. The Government should also allow councils to retain 75% of business rates from 2022, but so that this represents a net increase in funding, we urge it not to impose commensurate cuts to grant funding. The additional funding should then be put towards equalisation in a separate grant designed for this purpose. We also urge the Government to clarify what level of funding equalisation it considers to be appropriate for local government.* (Paragraph 26)

5. We are pleased that the allocation of the £300 million grant for social care mitigates the distributional impact of the council tax rises, but we do not think the fairness of the funding model should be reliant on one-off, short-term grants. It is right that certain councils be compensated for low council tax bases, but this should be done through a more predictable means of funding equalisation. Council tax is also an increasingly regressive tax that again penalises those in more deprived areas. A revaluation is long overdue. In the longer term, one possibility that could be considered is a proportional property tax. (Paragraph 31)

6. *The Government should reform council tax by undertaking a revaluation of properties and introducing additional council tax bands, in line with the recommendations of our predecessor Committee. In the longer term, the Government should consider options for wider reform of council tax and business rates, including possibly replacing them with a proportional property tax.* (Paragraph 32)

7. The funding base of local government in England is very narrow. As the pandemic has highlighted, revenue derived from council tax and business rates is also insecure. As concluded by our predecessor Committee, greater fiscal autonomy could contribute to local government financial resilience. (Paragraph 36)

8. *We recommend that the Government widen the funding base of local government to make it less vulnerable to shocks such as the covid-19 pandemic, including by giving councils more flexibility over local taxes and other revenue-raising powers. This would also align with giving local authorities more powers over spending, which we will consider in our future report on devolution in England. Giving local government more powers to raise and spend money is a position supported by our predecessor Committee. We also recommend that the Government reform business rates, in particular by finding a mechanism by which to level the playing field between bricks-and-mortar and online retailers. This is an issue we will return to in our upcoming report on supporting high streets after covid-19.* (Paragraph 37)

9. We understand the Government's reasons for resorting to a one-year spending review last year, but we note it followed a one-year spending review in 2019 and that the last multi-year spending review came in 2015. Local government cannot manage its spending and borrowing without the medium-term certainty that multi-year funding settlements bring. If the next spending review is not a multi-year settlement, the recovery of local authority finances after the covid-19 pandemic will be impeded. We are pleased that the Minister acknowledged the importance of multi-year settlements to local government but note he expressed only the hope that the next one would be a multi-year settlement. (Paragraph 42)

10. The proliferation in recent years of small, often one-off and ring-fenced grants, sometimes involving a competitive bidding process, and the uncertainty around such funding, can hinder robust financial planning and management by local authorities, as has been acknowledged by the Public Accounts Committee. Ring-fenced grants also limit councils' flexibility to match spending to need. Reducing their number would give councils greater control over spending and would be consistent with our previous recommendation that councils be given great revenue-raising powers. (Paragraph 43)

11. *The next financial settlement for local government must be a multi-year settlement. The Government should also consolidate the number of small and ring-fenced grants, which can limit local authorities' ability to provide services flexibly, and should reduce the number of bidding processes, which can be burdensome and time consuming.* (Paragraph 44)

Covid-19

12. The Government deserves credit for having responded to an unprecedented crisis with significant emergency funding that, from a national perspective, broadly covers all the additional financial pressures consequent on the pandemic and lockdowns in 2021–22. The effects of the pandemic will be felt for many years, however, and we are concerned that the Government has not committed to covering costs arising in future years, including from lost council tax and business rates. We are concerned, too, that some local authorities have been worse hit than others, particularly shire districts, and that some of these councils, even with the additional government funding, will still be left out of pocket. The disproportionate impact on local authorities will not assist the Government's levelling up agenda. (Paragraph 54)

13. *We urge the Government to consider ways of mitigating the uneven financial support across local authorities and provide greater certainty to councils over what future costs incurred as a result of the pandemic it intends to cover.* (Paragraph 55)

Local authority commercial investment

14. Commercial investment appears to pose no clear threat to local government financial resilience overall, and where it has contributed to financial instability, the councils concerned must bear ultimate responsibility. We also welcome the Government's reforms to the PWLB's lending terms, which are a useful clarification of the purposes for which PWLB loans can be used. In understanding local authorities' use of commercial investment, we must acknowledge that previous Governments encouraged councils to be more commercial. (Paragraph 70)

15. Furthermore, whilst we welcome the Minister's commitment to gathering the best quality data to better understand councils' exposure to commercial investment, we think this should have been done by now. We are also concerned about the lack of a statutory requirement on local councils to comply with the prudential code. (Paragraph 71)

16. *We recommend that the Government legislate to make compliance with the prudential code by local authorities a statutory duty. The Government should also make good on its commitment to improving the data it collects on local authority commercial investment.* (Paragraph 72)

Audit and control

17. As highlighted in Sir Tony Redmond's independent review of local authority audit, the local audit market is deeply flawed. We are particularly concerned about the shortage of specialist local auditors, about the principle of allowing local councils

to choose their own auditor and about the lack of a co-ordinating body responsible for monitoring the performance of auditors and joining up auditor findings across the country. We are pleased the Government has now announced its plans for instituting a new audit system leader, and we can see the argument for separating regulation and procurement. We are also pleased that the Department has accepted the recommendation in the Redmond Review that the new system leader produce annual reports on the state of local audit, although it is not clear to what extent it will be able to join up individual auditor findings with a view to identifying systemic issues across local government. We also note that the new Audit, Reporting and Governance Authority, in which the standalone unit will sit, is being set up primarily to audit the private sector. Given that local authority audit is different from private sector audit, in that it must consider such additional matters as public interest and value for money, it remains to be seen if a standalone unit within ARGA can provide the necessary specialism that local authority audit requires. We have concerns that the Government has not established a regulator along the lines suggested in Sir Tony Redmond's independent review, rather than as a standalone unit within another regulator. (Paragraph 80)

18. *We recommend the Government remove the ability of local authorities to choose their own auditors. The risk is that auditors will be reluctant to flag up potential problems for fear of losing their contract. The Government should consider who will be best placed to appoint local authority auditors, given that it should not be local authorities themselves, and ARGA doing so could lead to a conflict of interest. We also ask the Government to confirm that the new system leader will be able to join up individual auditor findings with a view to identifying systemic issues across local government. Without a central body responsible for oversight of the sector, we see no way of ensuring a robust and transparent regime of local audit.* (Paragraph 81)

19. The absence of section 114 notices before 2018 is adduced as evidence that the regime has been broadly successful. The consequences for a council of issuing a notice are serious, however, and we are concerned that, rather than concentrating minds, the regime might be hindering good financial management, as it lacks intermediary measures that councils can use to flag up concerns. Croydon Council delayed issuing a notice for fear of the negative publicity and the statement it would make about its financial position. Northamptonshire Council also delayed. We believe that an intermediary "yellow card" measure that could be applied by the Chief Finance Officer might have forced these councils to confront much earlier the seriousness of the problems facing them. (Paragraph 89)

20. *We recommend that the Government consider changing the section 114 regime to provide Chief Finance Officers with intermediary measures that can be applied at a much earlier stage to highlight concerns before a council's finances deteriorate so far as to require a section 114 notice. We also recommend that Chief Finance Officers report to both the Executive and appropriate scrutiny committees on a quarterly basis on the state of local authority finances and, in particular, draw attention to potential serious financial problems.* (Paragraph 90)

Formal minutes

Wednesday 14 July 2021

Virtual meeting

Members present

Mr Clive Betts, in the Chair

Bob Blackman
Ian Byrne
Brendan Clarke-Smith
Florence Eshalomi
Ben Everitt
Andrew Lewer
Mary Robinson

Draft report (*Local authority financial sustainability and the section 114 regime*) proposed by the Chair, brought up and read.

Ordered, That the report be read a second time, paragraph by paragraph.

Paragraphs 1 to 90 read and agreed to.

Annex agreed to.

Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjourned till Monday 19 July at 3.45 pm.

Witnesses

The following witnesses gave evidence to the inquiry into local authority financial sustainability and the section 114 regime. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 8 February 2021

Rob Whiteman, CEO, CIPFA; **Cllr Richard Watts**, Chair of Resources Board, Local Government Association (LGA) Q1–46

Monday 22 February 2021

Luke Hall MP, Minister of State for Regional Growth and Local Government, Ministry of Housing, Communities and Local Government; **Alex Skinner**, Director of Local Government Finance, Ministry of Housing, Communities and Local Government Q47–97

Thursday 25 March 2021

Katherine Kerswell, Interim CEO, Croydon Council; **Cllr Hamida Ali**, Leader, Croydon Council; **Chris Buss**, Interim Section 151 Officer, Croydon Council; **Sarah Ironmonger**, Director of Audit, Grant Thornton Q98–171

The following witnesses gave evidence to the inquiry into the spending review and local government finance. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 12 November 2020

Councillor James Jamieson, Chairman, Local Government Association (LGA); **Rob Whiteman**, CEO, Chartered Institute of Public Finance and Accountancy; **David Phillips**, Associate Director, Institute for Fiscal Studies (IFS) Q1–25

Councillor David Williams, Chairman, County Councils Network; **Councillor Sharon Taylor**, Leader of Stevenage Borough Council, & DCN Lead Member for Sustainable Finance and Workforce, District Councils Network; **Councillor Sir Stephen Houghton**, Chair, Special Interest Group of Municipal Authorities Q25–44

Monday 22 February 2021

Luke Hall MP, Minister of State for Regional Growth and Local Government, Ministry of Housing, Communities and Local Government; **Alex Skinner**, Director of Local Government Finance, Ministry of Housing, Communities and Local Government Q47–97

Published written evidence

The following written evidence was recieved for the inquiry into local authority financial sustainability and the section 114 regime and can be viewed on the inquiry publications page of the Committee's website.

FSS numbers are generated by the evidence processing system and so may not be complete.

1 Carpenter, Mr Pete (Corporate Director Resources, Peterborough City Council) (FSS0010)

2 Chartered Insititute of Public Finance and Accountancy (CIPFA) (FSS0012)

3 Core Cities UK (FSS0004)

4 County Councils Network (FSS0008)

5 Derbyshire County Council (FSS0006)

6 District Councils Network (FSS0013)

7 Eckersley, Dr Peter (Senior Research Fellow, Nottingham Business School) (FSS0001)

8 Kofi Dom, Bernard (Associate Lecturer, Nottingham Business School) (FSS0001)

9 Lakoma, Katarzyna (Research Associate, Nottingham Business School) (FSS0001)

10 Local Government Association (LGA) (FSS0002)

11 London Councils (FSS0014)

12 Murphy, Professor Peter (Professor of Public Policy and Management, Nottingham Business School) (FSS0001)

13 Society of County Treasurers (FSS0003)

14 Saffron Walden Constituency Labour Party (FSS0011)

15 Special Interest Group of Municipal Authorities (FSS0007)

The following written evidence was recieved for the inquiry into the spending review and local government finance and can be viewed on the inquiry publications page of the Committee's website.

SRF numbers are generated by the evidence processing system and so may not be complete.

1 Action for Children; The Children's Society; Barnardo's; NSPCC; and National Children's Bureau (SRF0021)

2 Action on Smoking and Health (ASH) (SRF0033)

3 Bristol City Council (SRF0026)

4 British Dietetic Association (SRF0015)

5 Broadland District Council; and South Norfolk Council (SRF0017)

6 CIPFA (SRF0002)

7 Cancer Research UK (SRF0024)

8 Central London Forward (SRF0037)

9 Civil Enforcement Association (SRF0022)

10 Core Cities UK (SRF0023)

11 Derbyshire County Council (SRF0032)

12 District Councils' Network (SRF0010)

13 Eckersley, Dr Peter (Senior Research Fellow, Nottingham Business School, Nottingham Trent University) (SRF0014)

14 Gateshead Council (SRF0019)

15 Hampshire County Council (SRF0007)

16 Lewis, David (SRF0012)

17 Local Government Association (LGA) (SRF0001)

18 MHA (SRF0029)

19 NHS Providers (SRF0005)

20 Murphy, Professor Peter (Professor of Public Policy and Management, Nottingham Business School, Nottingham Trent University) (SRF0014)

21 Newcastle City Council (SRF0028)

22 Norfolk County Council (SRF0003)

23 Plymouth City Council (SRF0027)

24 Royal College of Nursing (SRF0013)

25 SIGOMA (SRF0025)

26 Society of County Treasurers (SRF0035)

27 Sheffield City Council (SRF0020)

28 Solace (SRF0006)

29 Southwark Council (SRF0009)

30 St Helens Boough Council (SRF0030)

31 Surrey County Council (SRF0036)

32 The Children's Society (SRF0031)

33 Together for Short Lives (SRF0016)

34 UK Women's Budget Group (SRF0038)

35 UNISON (SRF0034)

36 West Sussex County Council (SRF0008)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	The future of the planning system in England	HC 38

Session 2019–21

Number	Title	Reference
1st	Protecting rough sleepers and renters: Interim Report	HC 309
2nd	Cladding: progress of remediation	HC 172
3rd	Building more social housing	HC 173
4th	Appointment of the Chair of Homes England	HC 821
5th	Pre-legislative scrutiny of the Building Safety Bill	HC 466
6th	Protecting the homeless and the private rented sector: MHCLG's response to Covid-19	HC 1329
7th	Cladding Remediation—Follow-up	HC 1249