

Local Finance Taskforce: A roadmap to a sustainable future

We demand
a local government
funding system that
is fair, transparent and
provides certainty. A
local government
SETTLEMENT that is
clear about the role and
VALUE OF COUNCILS
and their relationship
with the wider public
sector and society.

LGiU

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Local government, representing as it does a wonderful diversity of political and geographical contexts, rarely speaks with one voice. So it is all the more striking when one finds an issue that unites the sector in a single opinion. That issue is council funding.

Putting aside the cuts that formed the wider public sector austerity drive, in which councils experienced a 49 per cent real terms drop in government funding (NAO, 2018), today's most pressing concern is uncertainty. The frightening reality is that, beyond 31st March 2020, English councils do not know where their funding will come from or, crucially, how much they will have in their account.

Councils are already beginning to decide their budgets for 2020-21 and, unlike other parts of the public sector, they are legally obliged to set a balanced budget. Councillors and officers across the country are currently attempting to solve this cruel riddle – how to make sure you do not overspend when you don't know how much you might have in the bank. The mental gymnastics required are causing serious headaches and a great deal of stress.

In the absence of any Government decision before the summer Parliamentary recess, councils may soon be forced to take very difficult decisions, based on their worst-case scenario budget estimates – making redundancies, stripping down services, selling valued public assets – that may turn out to be completely unnecessary. The damage done by losing institutional capacity in this abrupt manner will not be easy to recover from.

About this report

The Government has laid out its own plans, including 75 per cent Business Rate Retention and the Fair Funding Review, but to achieve a well-functioning council funding system we need to widen our thinking beyond zero-sum tweaks to the relative needs formula and a narrow focus on business rates. LGiU has run the Local Finance Taskforce through 2018 and 2019 to expand this conversation.

The Taskforce has spoken to 245 senior local government figures around the country to focus our collective mind on how to create a truly sustainable financial system that is fair, transparent and provides much-needed certainty. It provided an opportunity for local government to debate a wide range of ideas that should be on the table for consideration.

Throughout this period, the issue has only grown in urgency. This report contains immediate recommendations to Government to assist councils in setting their 2020-21 budgets, as well as sector-approved plans for building a funding system that doesn't leave the fate of the most vulnerable dependent on the success of their local high street.

There were some clear areas of consensus on actions required, while other areas were identified as crucial but in need of further exploration. This report brings together these two strands into a set of recommendations for central government and a set of principles that should underpin the design of the future system.

From these recommendations and principles, we lay out a road map for the future that is ambitious, yet achievable with the right political will. It acknowledges the real-world constraints we face and maps key decisions on to key government events and milestones. We challenge the next Prime Minister to address council funding within his first 100 days in office.

OUR GOAL: A local government funding system that is fair, transparent and provides certainty. A local government settlement that is clear about the role and value of councils, and their relationship with the wider public sector and society.

The situation in local government

£50bn

funding gap over the next six years

County Councils Network and PWC 2019

91%

of councils overspent on their children's social care in 2017-18

49%

real terms reduction in government funding 2010/11 - 2017/18

National Audit Office 2018

1 council has already declared effective bankruptcy

655,630

new children's social care referrals in 2017-18

11 authorities on track to fully exhaust reserves within four years

National Audit Office 2018

Chartered Institute of Public Finance & Accountancy 2018

1 in 20

councils fear they will be unable to fulfil statutory duties this year

LGiU 2019

1 in 10

councils expect to face legal challenges this year due to service cuts

LGiU 2019

21%

fall in spending on local services 2009/10 and 2017/18

Institute for Fiscal Studies 2019

49%

of councils saw a fall in recycling rates between 2011/12 and 2016/17

BBC analysis of DEFRA data 2018

600+

library closures since 2009

Chartered Institute of Public Finance & Accountancy 2009-2018

£9.1bn

worth of public space sold off in five years

Bureau of Investigative Journalism 2019

Half

of youth centres closed since 2011

APPG on Knife Crime 2019

How did we get here?

The Revenue Support Grant, on which councils rely as a key part of their funding mix, will disappear on 1st April 2020.

How is local government funded?

Revenue Support Grant

Central government grant which is distributed according to a needs formula. The Government is phasing out this grant and replacing it with locally retained business rates in 2020.

Other central grants

Alongside the Revenue Support Grant (RSG) for general expenditure, central government pays other grants to councils for specific purposes, such as education, public health and major infrastructure projects.

Locally retained business rates

Proposed as part of the Devolution agenda, the Government initially planned for councils to begin keeping 100 per cent of local business rates to replace the nationally distributed Revenue Support Grant. The rollout of this new system has been delayed and scaled back to 75 per cent. Meanwhile RSG is still on track to disappear by 2020 without its successor in place.

Council tax

This residential property tax is set and kept by the council. Since 2013 councils wishing to raise their council tax more than a specified amount (currently 3 per cent) must hold a referendum. No councils have ever held such a referendum but in the past two years most councils raised their council tax to the maximum possible without triggering a referendum.

Sales, fees and charges

Councils are able to charge for certain services. For some, like parking, councils can set the charges they like. For others, like planning, the amount councils can charge is capped.

Borrowing and investments

Councils can also make money through commercial operations and can borrow to fund such ventures.

This phase-out was set in motion in 2013 by the previous Government on the understanding that councils could instead keep 100 per cent of local business rates. The necessary legislation never made it through Parliament due to national political turmoil, so the plans were pared down to 75 per cent, which can be done through secondary legislation.

So far, so manageable, but the thorny problem of redistribution has yet to be resolved. To make councils reliant on their local business rate income (a notoriously unfair and outdated tax), without taking into account local need or the ability of the council to increase local economic growth, is an unpalatable prospect and the Government has acknowledged that a system of redistribution must be designed.

The devil, however, is in the detail – and the detail has not materialised. Meanwhile, some areas are already forging ahead with the full 100 per cent Business Rate Retention pilot, but don't yet know if they'll be brought back to 75 per cent in 2020 or be able to continue with 100 per cent.

Those which aren't in a pilot area are in the dark about how much they will be keeping from April 2020, and how much they'll be giving to or receiving from other councils in the redistributive system. To say nothing of the missing 25 per cent, forgotten when the plans were scaled back to 75 per cent retention.

Ever present in the background is the mounting crisis of adult social care funding, which is placing enormous strain on councils and now accounts for the vast majority of expenditure in upper tier authorities. The publication of the promised social care green paper has been delayed five times over two years.

Complicated, yes. But important, absolutely. Depending on the shape of the redistribution system, a council's projected budget could vary widely. Whether a council has £3m or £500k to spend on adult social care or on supporting rough sleepers next year is a matter of life or death.

The Local Finance Taskforce consultation

This report brings together the findings of a year-long consultation with senior local government representatives and sector experts to create a roadmap to a sustainable financial future.

Council finance policy is complex and is experienced differently in different councils so we ran a wide-reaching consultation, much of it through face-to-face discussions, that reflects these diverse and nuanced opinions.

We ran a packed programme of research and events including: the Local Finance Scorecard; the LGiU & MJ State of Local Government Finance Survey; regional policy roundtable events; key party conference platforms; podcast interviews; and an online consultation.

We kept the focus broad, allowing the discussions to be led by people's own priorities, whether that involved technical aspects of existing funding mechanisms, options for new funding levers or central government activity. Several themes emerged, which are explored in the evidence section. Ideas that gained consensus and that the sector agrees are achievable are highlighted as recommendations.

We consulted **245** local government stakeholders...

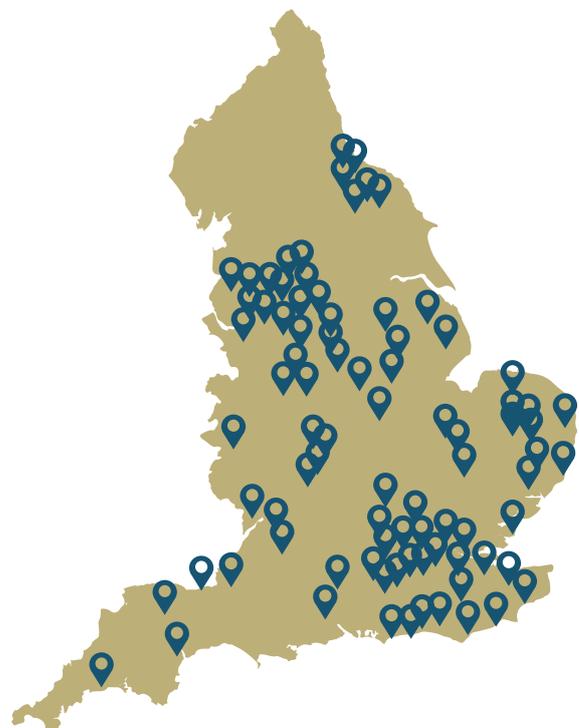
82
council
leaders &
elected
mayors

55
council
chief
executives

26
council
cabinet
members

14
local
government
experts
& other
stakeholders

68
senior
council
officers



...across all English regions and tiers of local government (excluding town and parish councils)

How did we hear from people?

Regional policy roundtable events

We hosted a series of regional events with senior councillors and officers.

In Norwich, hosted by Norwich City Council, we spoke to 18 senior councillors and finance directors, including four leaders. In Nottingham, hosted by Nottingham City Council with Core Cities, we spoke to finance directors of five city councils. In London, with Core Cities and London Councils, we spoke to finance directors of ten city councils and London Boroughs.

Private Leaders' dinners at the party conferences

We hosted private dinners for 32 council leaders at the Conservative, Labour and Liberal Democrat party conferences to discuss their views on the future of local government finance.

Online consultation

To complement the event programme, we ran an online consultation specifically around the options contained within the Local Finance Scorecard. We received 17 responses, including six senior councillors, seven senior officers and several sector experts.

LGiU Devolution Network

During our 2017 Devolution Network project, we hosted an event focusing on local government finance with six leaders and chief executives and six academics and experts.

LGiU & MJ Annual State of Local Government Finance Survey

LGiU and The MJ have run the State of Local Government Finance Survey every January since 2012 to coincide with councils setting their annual budgets. The results give a snapshot of the key pressures facing councils and the impact of ongoing financial uncertainty on their communities, as well as the sector's views on the way ahead.

The survey is sent to senior decision-makers at every English council. In 2019 we received 158 responses across 123 individual councils, and in 2018 we received 132 responses across 113 councils, meaning that a third of English councils are represented in the results across every region and tier.

Interviews for the LGiU Fortnightly podcast

In February 2019 we asked leading figures in local government what they thought of the state of council funding, including six leaders and cabinet members as well as sector experts from SOLACE; National Audit Office; Institute of Fiscal Studies and the Centre for Public Scrutiny.

Virtual steering group

Instead of a formal commission structure, to reflect the diversity of opinion within the sector we created a virtual steering group of 1900 stakeholders. We used this group to call for evidence, ask people to host and attend events and as a sounding board for our work.

Evidence: what we heard

Quantum, uncertainty and risk

Local government needs more money than it is currently receiving

The quantum of funding available to local government was raised by virtually everyone we consulted. After several years of budget cuts, councils told us they are unable to find more efficiency savings without damaging outcomes and that “the low-hanging fruit was already picked some time ago”. There is agreement that councils must be funded to a level that accurately reflects the true costs of delivering their services and fulfilling their legal obligations, including new duties that are placed on them.

Uncertainty about how much money councils will have from 2020 is causing havoc

There was frustration across the board at the lack of clarity about the amount of funding that will be available to councils from 2020. They are having to map out several potential scenarios with very little information, on top of having to predict the level of other income they may receive, such as New Homes Bonus payments and parking fees. This situation is hampering local government’s ability to plan their finances, spend on service improvements or invest in income-generating projects. Some respondents called for another multi-year settlement but there was strong support for at least a one year emergency settlement to allow people to plan their next budget. As one respondent put it, “even if the answer is that there is no more money, we would rather know so we can manage the situation”.

Councils are uncomfortable with the level of risk they have been pushed to accept

Those we spoke to were all confident in their ability to be entrepreneurial and commercial, but there was concern that the government has encouraged councils to take larger financial risks in order to manage the recent budget cuts. Many councils are now in a position where they are funding core services through returns on commercial ventures, which many feel uncomfortable about. One respondent compared the situation with the banking sector, which was forced to separate retail and investment activities, but local government has been pushed in the opposite direction, to merge their core and risky activities and without the option of failure. Without a stable core of funding, it is difficult for finance officers to sign off on risky investment plans. As it stands, there is a lack of agreement about how local government should balance risk against their responsibilities, and what powers they need to be given to do this.

Recommendations: Quantum, uncertainty and risk

- ▶ **Commit to a one year emergency local government finance settlement.**
- ▶ **Commit to maintain a constant level of funding indefinitely while the details of the new system are agreed.**
- ▶ **Undertake a fair and transparent assessment of the *actual costs* involved in delivering local government services to complement the *relative needs assessment* in the Fair Funding Review.**



Adult social care

Finding a longterm solution to adult social care funding is key

Securing a sustainable financial future for councils, as well as the NHS, requires a new approach to adult social care funding that acknowledges growing demand and the blurred line of responsibility between the health service and councils, the former offering free universal care and the latter offering conditional and often paid-for services.

There was frustration that the promised social care green paper has been delayed for two years but that the Government still managed to publish its 10-year plan for the NHS – the viability of which is seriously undermined by failing to address adult social care funding. As it stands, the same residents are simply being passed between several agencies without having their issues resolved, which is bad for their health and duplicates spend.

The adult social care precept cannot be a longterm solution

Although many respondents were glad to have the additional income-generating flexibility through the precept, there was agreement that this can only be a temporary stopgap. The amount brought in through the precept bears little relation to the costs of delivering local services, and in many cases adds additional burdens on households that cannot afford it because it is a regressive form of taxation. Therefore, councils agree that it cannot be the longterm solution to adult social care funding.

A centralised solution for funding would be welcome but delivery needs to be local

There was agreement that the answer to the funding problem must come from the national level and to some extent future funding arrangements must be centralised to ensure that the size of the local tax base does not dictate whether people receive the necessary care. However, there was resistance to the idea of a centralised solution to social care delivery (i.e. bringing it into the NHS or creating a central social care delivery department). Many argued that such a system would fail to cater to local differences in care needs and delivery challenges, and would undermine the progress already made in integrating health and social care services through collaborative local partnerships.

Community-based and preventative care should be valued as highly as in-patient care

There was a sense that hospital-based care enjoys a higher profile in the media and among the public, and that community-based and preventative services are less valued despite offering excellent value for money by preventing acute health crises and hospital admissions. This extends to the workforce and career paths, where social care workers are often working in poorly paid and insecure roles and struggle to transfer their skills into the health service. People agreed that it was important for local government to make this case more forcefully, but also for the Department of Health and others in Whitehall to recognise that improving health outcomes is not just a case of freeing up hospital beds.

Health and social care integration is already working well in places – we should learn from this progress

Although Greater Manchester is only English region to which health spending has been formally devolved, there is also much to learn from successful examples of partnership working across the country. One of the common factors that emerged through our consultation is the importance of culture change as the foundation of collaboration, in particular, harmonising language, practices and incentives. One council we heard from has created a People's Board that brings together all agencies working in the area, as well civil society voices, to agree and deliver a joint place-based strategy. In another council the leader is also the chair of the local Clinical Commissioning Group (CCG).

In Greater Manchester, the formal devolution agreement has helped integration by allowing money to be moved more freely between services, while still managing two budgets.

Many of the key barriers to further health and social care integration are well-known

Our consultation identified several barriers to successful cooperation between health and social care services. Firstly, NHS strategies and timelines do not line up with those in the council; although Sustainable Transformation Partnerships were designed to improve this situation there is more work needed.

Secondly, the geographical boundaries in the health service do not line up with local authority boundaries, meaning in some areas the council must deal with several CCGs, while in others a CCG spans multiple council boundaries. This makes partnership working more difficult as there are more partners to include.

Thirdly, the financial processes are very different – CCGs can overspend, are focused on one-year budget cycles and cannot hold significant reserves across years, while councils cannot overspend, have a longer-term strategic view and can hold reserves. This makes collaboration on cost-saving activities difficult because the savings cannot be transferred easily across the organisations.

All of these features result in a more adversarial context than is perhaps necessary and lead to mis-aligned behavioural and financial incentives.

Local government has many ideas about how to address the social care crisis

Although there was no clear consensus about the shape of the future social care service, many ideas were discussed, including:

- The Local Government Association’s proposal to fund adult social care through increasing National Insurance contributions
- Introducing a joint funding formula for NHS and social care services in an area, building on the foundations of the Better Care Fund
- Improving the progressiveness of the social care fee structure, i.e. improving the link with means
- Linking additional money from central government to improved integration outcomes
- Allowing CCGs to retain more reserves across years, so they can see the savings from efficiency, preventative and community care investments
- Segmenting taxes and grants for social care and place-shaping activities
- Local political oversight and scrutiny of health services in their area to support strategic integration

In light of the variety of ideas held within the sector, we need to develop a process for further research and evaluation that brings us closer to a long-term solution that works for everyone.

Recommendations: Adult social care

- ▶ **Decide a national strategy for health and social care funding that is fair and sustainable, starting with the Social Care Green Paper.**
- ▶ **Support the creation of local, place-based delivery partnerships that value community-based care as well as hospital care.**
- ▶ **Enhance the integration of health and social care by giving councils an oversight role for local health agencies.**
- ▶ **Facilitate the harmonisation of career paths between health and social care, including professional standards, hiring practices and remuneration.**



Business rates

Councils are concerned about the detail of the new Business Rate Retention Scheme

Despite 75 per cent Business Rate Retention being rolled out in a matter of months, the details of how the system will work have yet to be announced. Almost everyone we spoke to, across the political spectrum, was concerned about entrenching economic divisions between areas and the possibility of a council going bankrupt despite having a buoyant economy.

There is supposed to be a system of redistribution through tariffs, top-ups and baseline resets, but the Government has not yet announced the details. This means councils are struggling to project how much money they will have next year, as well as to model their longer term revenue. Additionally, the negotiations around the percentage that each tier should keep (in two-tier areas) is causing tensions. For areas with an existing 100 per cent Business Rate Retention pilot scheme, there has been minimal guidance as to whether they will continue with their pilot terms or keep only 75 per cent in line with the rest of the sector.

Business rates fail to capture key aspects of the modern economy and are an unstable foundation on which to build the council funding system

Aside from the immediate concerns about the detail of the impending 75 per cent Business Rate Retention Scheme, respondents told us they are concerned that their future financial security is now fixed to such an out-dated and broken tax. For one, business rates do not capture key aspects of local growth including digital business activity, which will only grow in importance in coming years. Meanwhile high street retail is receding, which accounts for a large part of business rate income.

Councils lack control over key features of the business rates system

The level of business rates, the frequency of property valuations, exemptions and reliefs, and the collection and appeals processes are all dictated by central government. This in itself did not bother our respondents, but many expressed concern about the lack of assurances from central government about compensation for changes in business rate policy, which have the potential to significantly impact their projected income. There

was frustration that Local Enterprise Partnerships are seeing the returns from the activity of Enterprise Zones rather than local authorities, reducing the incentive for councils to invest in their local economy. Councils also raised the issue of developers preferring to build more student residential units because they are exempt from business rates, rather than other forms of accommodation or commercial space.

Recommendations: Business rates

- ▶ **Finalise and publish the details of the 75 per cent Business Rate Retention system, to be rolled out by April 2020, as a matter of urgency. Including redistributive mechanisms, reset periods, guidance for existing pilot areas and what will replace the remaining 25 per cent**
- ▶ **Once this is implemented, we need a further consultation on the extent to which the 75–100 per cent Business Rates Retention plans will meet the future funding needs of local government. This should look at the future viability of the tax base and reform of the business rates system to be fairer and more reflective of economic activity**
- ▶ **Review the current business rates relief categories to ensure they do not contain perverse incentives and explore the possibility of additional local discretion**



Council tax

There is attachment to council tax but acknowledgement that it needs reform

Perhaps surprisingly, there was an attachment within the sector to council tax, although there is recognition that in its current form there are serious distortions. Holding on to some form of property-linked tax was seen as important; it is difficult to avoid, provides a stable income source and enhances local democratic accountability.

Revaluation is unlikely but adjustments to the council tax band system could suffice

Most people were resigned to the fact that revaluation of residential properties using up-to-date values is very unlikely to happen at the moment, considering it is a political hot potato and successive governments have avoided addressing it. There was, however, more appetite for looking at adjusting council tax bands, to improve fairness for taxpayers rather than bring in extra money per se. This could either be by changing the ratio between the council tax bands or adding extra bands above band H to ensure wealthier households are paying their fair share.

Cross-party support for removing the council tax referendum requirement

The referendum requirement for raising council tax above a certain threshold was widely seen to be outdated and ripe for removal. Councils perceive it to be effectively a cap, as running a referendum is prohibitively expensive and very difficult to win when plugging

gaps rather than delivering a specific new project. There was a strong feeling that local politicians should be allowed to face the consequences of raising council tax at the ballot box if they chose to do so. However, this came with the caveat that the wider funding system must also be fixed, so that there was not overwhelming pressure to introduce large council tax rises to plug gaps left by the withdrawal of central government funding.

Local discretion on council tax discounts could be extended

There was discussion of increased control over council tax exemptions and discounts, with some calling for their powers to be extended to tailor local approaches and tackle perverse behaviours.

Recommendations: Council tax



- ▶ **In lieu of full revaluation, introduce additional council tax bands above band H and change the ratio between the bands to improve fairness for tax-payers**
- ▶ **Remove the council tax referendum requirement**
- ▶ **Explore the possibility of additional local discretion in the council tax relief system**

Other sources of funding

In any future funding system it is vital to retain a truly local element of taxation

There is consensus across the sector that a locally set and retained tax is essential for the functioning of local democratic accountability. Even if the future funding system included other levers, local taxation sends a message to the public about citizenship. Fees, on the other hand, which are increasingly being used to fund services, do not send the same message and are often perceived in a negative way.

Introducing a wider range of funding levers could complement council tax and business rates

Council tax is a regressive form of taxation, meaning low-income households pay a higher proportion of their income, while business rates fail to capture key parts of local economic activity. However, respondents still value them for their strengths, including collectability, predictability and local democratic accountability. Rather than replacing them, there was appetite for supplementing them with a wider range of funding levers to balance out their weaknesses and improve fairness. This could include a local slice of income tax, corporation tax or the new Digital Services tax.

Allow councils to levy a tourist tax

Most respondents were supportive of allowing councils to levy a tourist or hotel tax, even if their council area would not necessarily use it. Many we spoke to complained that, although they welcomed visitors, paying for the negative impacts of tourism was diverting money out of their residents' services so they would like a way of recouping

the costs. It was felt that visitors would likely not notice the charge as it is standard practice in many other countries.

Councils want more freedom to raise and spend money in ways they believe are appropriate

There was frustration on several fronts about the constraints placed on local government. For some councils, the nationally set planning application fees were insufficient to cover their costs, with the result that the council is subsidising developers. The proliferation of small, ring-fenced grants from central government was another source of irritation, with councils seeing them as needlessly prescriptive, wasteful to administer and a poor replacement for a sensible funding system. There was also support for councils to have more flexibility in how they spend money received from Right-to-Buy property sales, and, ideally, to be able to keep all of the proceeds rather than the third they currently receive.

Access to loans could be improved

Some respondents pointed out that the government does not pass its favourable interest rates on to local authorities through the Public Works Loan Board (PWLB), although many councils still make use of the fund as it is cheaper than any alternatives. The Municipal Bonds Agency was lauded as a good idea in principle, but many councils have been hesitant to make use of it because the rates are still higher than the PWLB and there are questions around liability.

Recommendations: Other sources of funding



- ▶ **Allow councils to levy a tourist tax**
- ▶ **Consult on allowing councils to retain a share of income tax, corporation tax or the new digital services tax. This would be to complement council tax, which is regressive, and business rates, which fail to capture increasingly significant parts of the local economy**
- ▶ **Allow councils more flexibility in how they spend their Right to Buy receipts and consult on allowing councils to retain 100 per cent of sale proceeds to reinvest in their social housing stock**
- ▶ **Reverse the trend of funding councils through small ringfenced grants to councils, which are inefficient to administer and restrict councils' ability to solve complex problems**

Local government's place within the wider public sector

Funding cuts across the wider public sector are impacting on local government

Budget cuts in other areas of the public sector are having a negative knock-on effect on local government. Councils act as a safety net when people hit crisis point, and more people are reaching this point due to cuts to education and police budgets alongside welfare reform. The same residents are being passed around several agencies without having their issues resolved, while issues that could be prevented or caught early now

develop into crisis situations which are more difficult to deal with, like rough sleeping and exclusion from school. On top of this, new responsibilities given to local government have tended not to come with adequate funding, for example the 2018 Homelessness Reduction Act.

Lack of coordination across the public sector leading to inefficiencies and poor outcomes

Most of the areas that local government is responsible for overlap with the work of other Whitehall departments but there is a lack of joined-up thinking across the public sector which is driving inefficiencies and poor outcomes. Mental health was raised as an example of an area that is key to reducing demand on local government but which falls between the cracks of NHS, welfare and local government services. Similarly, many respondents have found that process failures in the centralised benefits system can cause additional demand in local government services, for example by forcing councils to top-up Local Housing Allowance payments and homelessness caused by late or inaccurate payments.

Further devolution is welcome and overdue

Despite a stalling of the devolution agenda at the national level, there is still a strong appetite within local government to restart negotiations. There was acknowledgement that a more open-minded approach was required this time around, both on the part of local government and Whitehall. Councils called for more transparency about the devolution deal criteria and a willingness to allow relationships to develop and mature locally at their own pace without leaping to a governance solution.

Local government often has a difficult relationship with the wider public sector but is keen to work more collaboratively

There was acceptance among many respondents that local government often fails to counter negative views of councils held in some parts of government and that those in the sector should also make a concerted effort to make their case to the public. Some of those we spoke to had struggled to make and maintain contact with their peers in MHCLG and the Treasury because of opaque management structures and staff turnover. With this in mind, it was suggested that both local and central government could benefit from knowledge transfer activities to improve mutual understanding and cooperation, and from encouraging cross-organisation career paths and secondments between the civil service and local government.

We should be making the most of local government's expertise in public engagement

Councils have a particular strength in public engagement, which respondents believe could be useful for other parts of the public sector to join or learn from. For example, some councils have succeeded in working with local CCGs to tailor health services in consultation with residents. There was also discussion of councils playing an overview and scrutiny role for other public sector agencies working in the area, to encourage integrated strategies and people-centred service design.

A wider national debate is needed about the role and value of local government

There was a feeling that the national understanding of the role of local government has become more vague and since the removal of the national performance indicators there has been slippage in our definitions of what a minimum acceptable service looks like and what level of variation is tolerable. There was also concern that councils are moving towards a more transactional relationship with the public which may serve to undermine public trust and the social contract.

Recommendations: Local government's place within the wider public sector



- ▶ Reopen discussions around devolution deals with clear criteria and taking a collaborative, open-minded and transparent approach
- ▶ Consider devolving responsibility for aspects of central government work to local government, such as infrastructure, transport and the Local Housing Allowance
- ▶ Encourage and facilitate knowledge-sharing sessions and staff secondments to promote better mutual understanding and cooperation between central government departments and councils
- ▶ Allow councils to carry out oversight and scrutiny of other public agencies working in the council's area to promote a place-based public service that makes use of councils' expertise in public engagement – ideally as part of a devolution agreement

Principles for the future council funding system

An element of funding that is truly local to protect local democratic accountability – i.e. set and retained by the council

Improved progressiveness of local taxation, either through improvements to council tax or by combining it with other forms of taxation, like a local share of income tax

National agreement on minimum service level outcomes, rather than being defined in an ad-hoc way through legal challenges

A fair assessment of the costs of delivering these minimum standards

A redistributive element to deal with situations where the local tax base cannot match local need

Freedom and flexibility in what can be spent and how to meet outcomes

Conclusion: areas of consensus

Through the consultation we uncovered a wealth of perspectives, informed by local context, politics and experience. People told us that it was refreshing to have a forum to explore the bigger picture and new ideas, outside of the day-to-day stresses of financial management.

Many of those working in local government, we heard, found that capacity constraints meant they often advocate only for things which will directly benefit their council. However, we found an incredible willingness to reach out beyond individual authorities to share ideas and coordinate activity for the good of the wider sector. Through this process, we were able to find areas of consensus on ideas that will benefit local government as a whole, be they concrete plans, ideas for further exploration or principles that should underpin the funding system of the future.

Recommendations for central government

Local government challenges the next Prime Minister to address local government funding within his first 100 days in office and set out a plan for developing a fair and sustainable funding system.

Quantum, uncertainty and risk

- ▶ Commit to a one year emergency local government finance settlement.
- ▶ Commit to maintain a constant level of funding indefinitely while the details of the new system are agreed.
- ▶ Undertake a fair and transparent assessment of the *actual* costs involved in delivering local government services to complement the *relative* needs assessment in the Fair Funding Review.

Adult social care

- ▶ Decide a national strategy for health and social care funding that is fair and sustainable, starting with the Social Care Green Paper.
- ▶ Support the creation of local, place-based delivery partnerships that value community-based as well as hospital care.
- ▶ Enhance the integration of health and social care by giving councils an oversight role for local health agencies.
- ▶ Facilitate the harmonisation of career paths between health and social care, including professional standards, hiring practices and remuneration.

Business rates

- ▶ Finalise and publish the details of the 75 per cent Business Rates Retention system as a matter of urgency, in advance of the roll-out date of April 2020, including: redistributive mechanisms, reset periods, guidance for existing pilot areas and what will replace the remaining 25 per cent.
- ▶ Once this is implemented, we need a further consultation on the extent to which the 75–100 per cent Business Rates Retention plans will meet the future funding needs of local government. This should look at the future viability of the tax base and reform of the business rates system to be fairer and more reflective of economic activity.
- ▶ Review the current business rates relief categories to ensure they do not contain perverse incentives and explore the possibility of additional local discretion.

Council tax

- ▶ In lieu of full revaluation, introduce additional council tax bands above band H and change the ratio between the bands to improve fairness.
- ▶ Remove the council tax referendum requirement.
- ▶ Explore the possibility of additional local discretion in the council tax relief system.

Other sources of funding

- ▶ Allow councils to levy a tourist tax.
- ▶ Consult on allowing councils to retain a share of income tax, corporation tax or the new digital services tax. This would be to complement council tax, which is regressive, and business rates, which fail to capture increasingly significant parts of the local economy.
- ▶ Allow councils more flexibility in how they spend their Right to Buy receipts and consult on allowing councils to retain 100 per cent of sale proceeds to reinvest in their social housing stock.
- ▶ Reverse the trend of funding councils through small ringfenced grants, which are inefficient to administer and restrict councils' ability to solve complex problems.

Local government's place within the wider public sector

- ▶ Reopen discussions around devolution deals with clear criteria and taking a collaborative, open-minded and transparent approach.
- ▶ Consider devolving responsibility for aspects of central government work to local government, such as infrastructure, transport and the Local Housing Allowance.
- ▶ Encourage and facilitate knowledge-sharing sessions and staff secondments to promote better mutual understanding and cooperation between central government departments and councils.
- ▶ Allow councils to carry out oversight and scrutiny of other public agencies working in the council's area to promote a place-based public service that makes use of councils' expertise in public engagement.

Local government funding

A roadmap to a sustainable future

Now

22 Jul: prime minister announced

25 Jul: beginning of summer Parliamentary recess

Summer: councils start planning their 2020/21 budget

Autumn

3 Sept: Parliament opens session

Sept/Oct: Parliamentary recess for Party Conferences

31 Oct: proposed Brexit deadline

Oct/Nov: Autumn Budget

Winter: government supposed to publish findings of Spending Review

Dec: Local Government Finance Settlement (LGFS)

Feb/Mar: councils finalise their 2020/21 budgets

1 Apr: councils run out of Revenue Support Grant and don't know how much money they will have from this point

2019

Commit to a one year emergency local government finance settlement

Prime Minister to consult sector and ministers about local government policy strategy and agree timeline for decisions

Commit to a constant level of funding indefinitely while details of the new system are agreed

Publish results of the Fair Funding Review and details of the 75% Business Rate Retention system

Autumn Budget to contain more money for local government and adult social care in particular

Spending Review to contain a fair and transparent assessment of the actual costs involved in delivering local government services to complement the relative needs assessment in the Fair Funding Review

LGFS to provide details of the level of funding councils can expect until the details of the new system are agreed; raise/remove the council tax referendum requirement; add new council tax band(s); and change ratio between council tax bands

2020

Prime Minister to publish national strategy for health and social care funding and delivery that is fair and sustainable, starting with the social care green paper

Reopen discussions around devolution deals with clear criteria and taking a collaborative, open-minded and transparent approach

Undertake consultation on the extent to which the 75-100% Business Rates Retention plans will meet the future funding needs of local government, and explore other funding options including allowing councils to retain a share of income tax, corporation tax or the new digital services tax

By **2021** we hope to have...

- ▶ A local government funding system that is fair, transparent and provides certainty
- ▶ A local government settlement that is clear about the role and value of councils, and their relationship with the wider public sector and society
- ▶ A clear long-term funding plan for adult social care, including integration with health services
- ▶ Further devolution to English regions that allows councils to deliver excellent public service outcomes and unlock economic growth

Next steps

When we launched the Local Finance Taskforce at the start of 2018, the conversation around council funding had retreated from the ambition of devolution and become narrowly focused on delivering a pared down version of 100 per cent Business Rate Retention Scheme. However, since then there have been positive signs that the debate is beginning to encompass a wider range of ideas and a more holistic perspective on financial sustainability.

For instance, the CLG Select Committee Inquiry into the options for local government finance, something the Taskforce called for in 2018, has taken a broad approach. Elsewhere, tourism tax proposals are gaining momentum, with many English local authorities now actively pushing for such powers, and Edinburgh City Council succeeding in getting Holyrood approval. Discussions around tax devolution are live, in large part thanks to recent research from the Institute of Fiscal Studies. Even outside the sector, there is growing pressure for a fair local government settlement, such as Cancer Research UK's campaign on public health funding.

Nevertheless, the central problem remains: councils are unable to plan their finances further than eight months in advance. That is why we are calling for an emergency one year funding settlement to provide councils with enough headroom to plan their next budget without severely damaging public service delivery.

Urgent action is required to reduce uncertainty, but so is a thoughtful and ambitious strategy for the future of council finances and the role of local government. Our road map lays out the key areas on which local and central government stakeholders must collaborate. Local government and the public they serve cannot afford for this issue to be sidelined any longer.

Appendix

Related links:

- LGiU Local Finance Taskforce <https://www.lgiu.org.uk/policy-theme/local-finance-taskforce/>
- LGiU MJ State of Local Government Finance Survey 2019 <https://www.lgiu.org.uk/report/lgiu-mj-state-of-local-government-finance-survey-2019/>
- LGiU MJ State of Local Government Finance Survey 2018 <https://www.lgiu.org.uk/report/lgiu-mj-state-of-local-government-finance-survey/>
- Local Finance Taskforce – Finance Scorecard <https://www.lgiu.org.uk/report/local-finance-taskforce-finance-scorecard/>
- LGiU Fortnightly Podcast 15th February: Fixing council funding <https://www.lgiu.org.uk/2019/02/15/lgiu-fortnightly-15th-february-fixing-council-funding/>
- London event: What do city council treasurers think about council funding? <https://www.lgiu.org.uk/2019/01/18/what-do-city-council-treasurers-think-about-council-funding/>
- Nottingham event: Local government finance – the Core Cities’ perspective <https://www.lgiu.org.uk/2018/11/15/local-government-finance-the-core-cities-perspective/>
- Norwich event: Where next for council funding? The view from East Anglia <https://www.lgiu.org.uk/2018/10/05/where-next-for-council-funding-the-view-from-east-anglia/>
- Beyond Devolution – the final report of the Local Democracy Network <https://www.lgiu.org.uk/report/beyond-devolution-the-final-report-of-the-local-democracy-network/>

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About LGiU

LGiU is the largest independent local authority membership organisation in the country. We provide unrivalled practical support to our member councils and an uncompromising advocacy for local government and services that are designed and delivered in the communities that need them.

We are a not-for-profit membership organisation and think tank. We work for local authorities and with local authorities helping them to serve their citizens more effectively. We provide the information and support that officers and councillors need everyday. We work with our members to turn the best new innovative ideas into the real solutions needed to provide sustainable services in the future.

As the only truly independent local government body we are an influential voice for the sector in the media and on the national stage. Unhampered by political allegiance or factions our only agenda is local communities, local services, local government. We are a critical friend to the sector and an unwavering champion of localism.

About the LGiU Local Finance Taskforce

Local authorities are in a precarious financial situation.

With a Government preoccupied with Brexit, the creaking NHS and the housing crisis, the urgent questions about future council resourcing remain unanswered.

Business rate retention policy has been scaled back and delayed, the Fair Funding Review has yet to report and social care green paper is long overdue, and all the while Revenue Support Grant is still on course to disappear by 2020.

Councils are facing a cliff-edge and need answers now. 2019 must be the year this happens.

LGiU has been leading the Local Finance Taskforce since 2018, working with senior local government representatives and sector experts to raise the profile of these issues to a wider audience and force the Government to provide much-needed policy clarity.



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