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Local public services and the next Spending Review

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Policy Webinar Summary
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Grant Thornton

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1. Overview

Context

The purpose of the 'Playing it long' webinar was to examine what a long-term answer to fixing our broken system of funding local public services would look like. In order to preserve the coherence of the local state, councils need a long-term finance strategy as the basis from which to undertake social renewal and economic recovery. The webinar assembled a top panel to debate how this may happen and what it should look like. In light of 10 years of austerity that targeted local authority finances and the renewed funding challenges brought on by COVID-19 there is an imperative to address this issue and find a solution to associated challenges.

Webinar questions

With this context in mind the webinar asked the following:

- *Given the government's commitment to building up regional economies, what does the Spending Review need to include so we can enact lessons from the pandemic to create a resilient state; nationally, locally, and at a community level?*
- *Is an emphasis on upstream investment in population and preventative health and social infrastructure possible? If not, can under-investment still be mitigated?*
- *To what extent can councils exploit their own assets or make use of their convening power to locally-fund vital services and social infrastructure or otherwise ensure local priorities are met?*
- *How does the question of social care, and the need to manage associated services, play into all of the above?*

Overall, the main guiding question of the session that panellists considered was: **"To protect, improve and reform local public services, what long-term approaches for renewing a broken funding model are worth pursuing to diversify the local tax base, address the over-dependence on council tax and business rates, and seek to recoup revenues that have evaporated during the pandemic?"**

Panelists

A range of national and local housing experts were invited to the panel to lend their thoughts on what is needed for an SME led housing recovery. In the order that they spoke, they included:

- **Michael Burton**, Editorial Director, *The Municipal Journal* and author of *'The Politics of Austerity: A Recent History'*
- **Abdool Kara**, Executive Leader for Local Services, *National Audit Office*
- **Angie Ridgwell**, Chief Executive Officer, *Lancashire County Council*
- **Phillip Woolley**, Partner, *Grant Thornton LLP*

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2. Webinar discussion

Each panellist took it in turn to explore the different issues and questions and below is a summary of their arguments:

Michael Burton

There are two major challenges: managing public finances and, longer term, putting local government on a more sustainable spending plan.

The first issue cannot be separated from politics. When fiscal consolidation was first introduced by the coalition government in 2010, public opinion was largely in favour of it. However, these measures will not be accepted today when looking at pandemic recovery. Government will face a challenge in managing public finances whilst making certain unpopular spending cuts. This will all be within the new context of the levelling up agenda, which brings another interesting aspect to this because previous austerity cuts to local government hardest hit those areas being targeted by levelling up now.

The second issue of local government financial reform poses longer term challenges. When considering revaluation in this context, questions start to arise around how to introduce it. Other important issues around how funding social care will play into this will equally need to be considered. Social care cannot be funded solely through council tax and business rates alone. Closely related to this is new revenue streams for local authorities. While there has always been a risk involved with them, they will continue to be very important for most councils. Finally, further consideration ought to be given to the scope for extra charging for the increased use of local services.

Abdool Kara

The NAO has long maintained that the government needs a robust long-term plan to secure the financial sustainability of local government. In the absence of this, the landscape has been characterised by short term funding settlements that are not sustainable or suitable for the task at hand. Major proposed funding reforms such as the fair funding review and promised reviews of social care funding have never materialised. Financial certainty and sustainability is the key for a healthy recovery and achieving value for money. The opposite creates unneeded risk and weakens the local authority's ability to think strategically.

The system was already in need of reform before the impact of COVID-19. From the current standpoint, it will take years for the sector's funding to fully recover. Due to the economic downturn, there will be a growth in local public service demand. At the same time, the downturn will trigger losses in areas of income and a reduced tax base for the council, which have not grown as quickly as medium-term plans had hoped. Putting this into perspective, fewer than half of single tier councils feel their finances will return to pre-pandemic levels in three to four years.

It is important that options of reform are targeted and focused on areas that will be most effective. Recent reforms to lending terms by central government will have the effect of mitigating risks in generating income from local government commercial investment. Council tax is another key area, there is ample evidence of its shortcomings as a source of local government funding but at the same time, it is an increasingly important source of funding. In the current system, the most deprived areas

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have the lowest levels of council tax income.

Ultimately, funding should follow the function of local government. In recent years, it has been on a trajectory towards a narrow offer on social care, which has become an increasing portion of local government spend. There needs to be a collective assessment of this trajectory. Once there is clarity on this, stakeholders will be better placed to identify how much is needed for funding and how this can be secured on a sustainable basis.

Angie Ridgwell

It is important to ask what the purpose of local government is. It is to provide key services for the greater good of the community. This includes supporting the most vulnerable through robust local infrastructure, financial support and social care to name a few. However, when viewing things in this way it becomes clear that often there is a weak link between the wealth of an area and the support it needs. This means that there will be a need to redistribute wealth within the sector especially when considering how local authorities are pitted against one another in bidding for central government funding.

The determination of wealth is still linked to property as seen through business rates. This is going to have to be revisited, especially when considering the state of modern wealth and markets. The pandemic has shone a light on this. Another issue it has highlighted is how important having decision making as close to people as possible is. Giving agency and control to people this way will help to ensure stronger outcomes. Ultimately, it is the local government sector's responsibility to consider strategic decisions through a whole systems approach.

Unfortunately, there appears to be little evidence of strategic thinking in the way required within central government currently. Conversations held with Whitehall ahead of the spending review continue to be focused on impact and making savings. Coupled with the governments preference with deal making and the single pot bidding this entails, there is a need for pragmatism regarding the unlikelihood of radical change in the next few years.

Saying this does not diminish the need to pave the way for radical change and call on government for a fundamental review on local government finances. Central to this is understanding what local government is all about and how to appropriately fund it. Additionally, whether having a property-based funding system is the correct way forward given current challenges brought about by COVID-19? A better system would look different, and not be property based because at the moment the ability to raise income is different across local areas and depends on having the correct resources.

Reviewing the current system should be done by an independent body who might have more gravitas than local government itself doing it. They could bring in an objective perspective and not be confronted by the political barriers facing local government. Whatever may eventually come out of reviews and reforms needs to be designed in a way that embeds agency for local residents who have influence over how services are developed and delivered. Aside from reviews, there are also changes within the council tax system that would be beneficial if done correctly. This includes the degree to which increases to the rate to fund statutory services such as social care occur.

Finally, there are issues that local government itself needs to take responsibility for. Including

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developing long-term credible strategies that are workable and can engage local stakeholders to deliver change for local communities. This requires needing to use the convening powers within a local area to set a common agenda. This is part of changing the conversation in local government from 'cannot' to 'can do'. Doing this will help prepare local politicians for devolution.

Phillip Woolley

Current financial forecasts for local government paint a bleak picture. From a national perspective, in a 'do nothing' scenario, the reasonable best case suggests a gap between income and expenditure of £0.3bn for 2021/22, rising to £1.4bn in 2022/23, and the reasonable worst case suggests £1.3bn and £2.5bn respectively. The gap between income and expenditure continues to diverge in both scenarios, but notably more so in the reasonable worst-case scenario. It is projected that many authorities remain at significant risk of financial failure or at least depleting reserves below what may reasonably be described as a sustainable position – defined as 5 percent of net revenue expenditure. With this being said, it is worth mentioning that, in financial terms, 2021 may not have been quite as bad as was initially feared – there have been a good number of reports of underspending. Nonetheless, the outlook continues to be notably bleak.

In terms of where progress on reforming the funding framework currently sits, there does not seem to be anything too radical emerging in the near term. The fair funding review is on hold, government does not seem to be any further forward on business rate retention, and progress around the future funding of social care has also stalled. There is some sympathy with the government's position on trying to track a way through these issues, given the uncertainty around the current economic landscape post-COVID. Some of the big ideas that underpinned the future funding prospectus, elements around fiscal devolution, business rate retention, etc. look really difficult in the current economic uncertainty and the fundamental changes that the economy has experienced and have been accelerated during COVID. High street and property-based businesses are at a higher risk than ever, the risk of really significant increases in unemployment post-furlough both also contribute to broader inflationary pressures going forward. To present radical change at this current moment would put the sector under too much pressure and disruption.

Announcements need to be timelier and prompter, and central government needs to do what it can to provide more certainty for the sector in terms of the reforms they are going to make. There does seem to potentially be an increase in tournament rounds of funding around levelling up, with some councils much more adept at putting together bids than others – inevitably causing a further challenge for the sector in terms of securing vital funding. It is expected that this funding will be capital in nature, rather than revenue, which means it will fail to deal with the underlying financial sustainability of authorities.

With regard to financial planning and financial management, there are a number of upcoming risks for local authorities to be bearing in mind. Long COVID will emerge as another significant spend driver in social care. Inflationary pressures, unemployment, business failure, will all impact on council tax and business rate bases. There seems to be an emergent culture of emergency spending within organisations, with significant pressure on trading companies, and outsourcing arrangements relating to consumer income – a particularly challenging element of local government income generation. The response to this should include comprehensive scenario analysis - there are a wide range of potential outcomes, which will require robust plans around place, services, and organisation.

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3. Question and answer session

After each panellist gave their thoughts on the webinar topic, the debate was opened to the floor with a number of questions from the audience. Below is a list of the questions asked and a summary of the answers given.

1. Is the UK moving towards unitary local government in totality? What are your thoughts on how useful this would be in terms of funding?

Michael: If you look at the unitaries that we do have at the moment, it is a combination of ones that were a long-time coming and ones that have been enforced due to a variety of reasons, and everything in-between. Whilst I do believe that we will see more unitaries coming downstream, every time you reorganise in such a manner, it causes significant disruption and that is not what the sector needs right now at all.

Abdool: Progress towards unitarisation has been steady and slow, and slightly patchwork, which has reached a point of inevitability. Do I believe it is the answer to the problems the sector faces? Not necessarily. The biggest elephant in the room with regard to local government funding is social care. For me, there are three outcomes; social care stays with local government under the current system, social care stays with local government but with a different model of funding, or social care leaves local government entirely and is provided, and therefore funded, nationally. Which of these three paths central government takes, because social care is such a huge proportion of local government spend, will dictate what happens with the rest of the sector in terms of funding.

Angie: From my experience in the sector, unitarisation has been a big topic of conversation. If it were up to me to design local government from scratch, I wouldn't opt for a two-tier system, and I'm not convinced that unitarisation is a good use of resources or effort currently. I do believe unitaries should be looked at in the long-term but I do not believe that now is the right time. Local authorities should be building on pandemic partnerships and initiatives – data-sharing is a key area for me, so that local authorities can have a more efficient and targeted use of funding and resources. One flag I will note is that if social care was incorporated into the national system, there would need to be radical reform within the health service as well, given that the current system incentivises hospital admissions and is quota-based.

Phillip: Ultimately for me, different models are right for different places. Proposals need to speak to the socio-economic context of a particular place. A note on unitarisation specifically is that, if the model is pursued, the unitary has to be of a sufficient enough scale to deal with demand shocks, social care pressures, etc. There have been cases of small-scale unitaries not being best placed to deal with such issues and struggling as a result.

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2. What shots in the locker do local authorities have to demonstrate the value of council tax to local residents?

Abdool: Council tax only covers around 50 percent of local service spend on average. The biggest dislocation is that the majority of council tax spend goes on a minority of the population with regard to social care. Because of the way in which council tax has been sold, residents expect better services but, as we are aware, the current system doesn't allow for this kind of dynamic to occur. So there is a dissonance between how council tax is marketed to residents and results on the ground, ultimately doing a disservice to the sector.

Michael: A brief point I'd like to make is that how frequently when we discuss local government, social care is brought up. Having a public inquiry into the current state of social care and potential solutions would be a step in the right direction. It is such a colossal issue that if social care funding is sorted out, then local government funding otherwise will begin to make a lot more sense and will be much easier to grapple with.

Angie: I do believe local leaders need to get out and facilitate local dialogue with their electorate to enable a more transparent, local democracy. The local public services that are most personal to residents are not the ones you necessarily have doorstep conversations about. There is a need to improve engagement with the local electorate on this basis. This will in turn develop a stronger understanding among the public on how local government functions and provides.

3. Is there a link between financial resilience of councils and their ability to make the most levelling up funding?

Angie: Absolutely, those councils who have some financial resilience and are able to invest in strategic planning and putting together credible bids are almost certainly going to have more opportunity to take advantage of levelling up. There is an indication from central government that the local MP's support will also be a necessary prerequisite for funding bids. Therefore, not only are local authorities going to need to be adept at putting a bid together, they are also going to need to use soft support and influence to their advantage too.

Abdool: There is a virtuous cycle that can take place for those authorities that do have the capacity to build a team able to make strong bids and implement requirements when successful – continuing to grow, train and get even better at that as time progresses. However, this virtuous cycle of tournament funding will inevitably undermine those with least capacity, typically the very same authorities that could do with 'levelling up' the most. The trade-off between the two ought to be a key concern for central government and the sector when operating within the current system of funding.

Phillip: Levelling up funding will inevitably impact less capable councils. For those with less capacity to bid for funding pots, the impacts of the levelling up agenda will be much more subdued, if noticable at all. Central government will need to review this, as the spatial distribution of those with weaker capabilities in this regard are the also those who seem to be the most logical targets for the levelling up agenda.

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4. Webinar recording

The full recording of this policy webinar can be access via the following [YouTube link](#).

Webinar kindly supported by:

