

Local government funding

Moving the conversation on



This paper is the very start of our campaign ahead of the Spending Review.

We have published a series of papers, commissioned by LGA boards, which start the new thinking around building the case for long term, sustained investment in local government as well as laying out the positive outcomes this would deliver for the country:

- local government funding
- housing, planning and homelessness
- improving schools
- Brexit
- the future of non-metropolitan England
- a sustainable adult social care and support system for the long term.

Over the coming months, we will be seeking your thoughts and evidence to further strengthen the rallying call to Government.

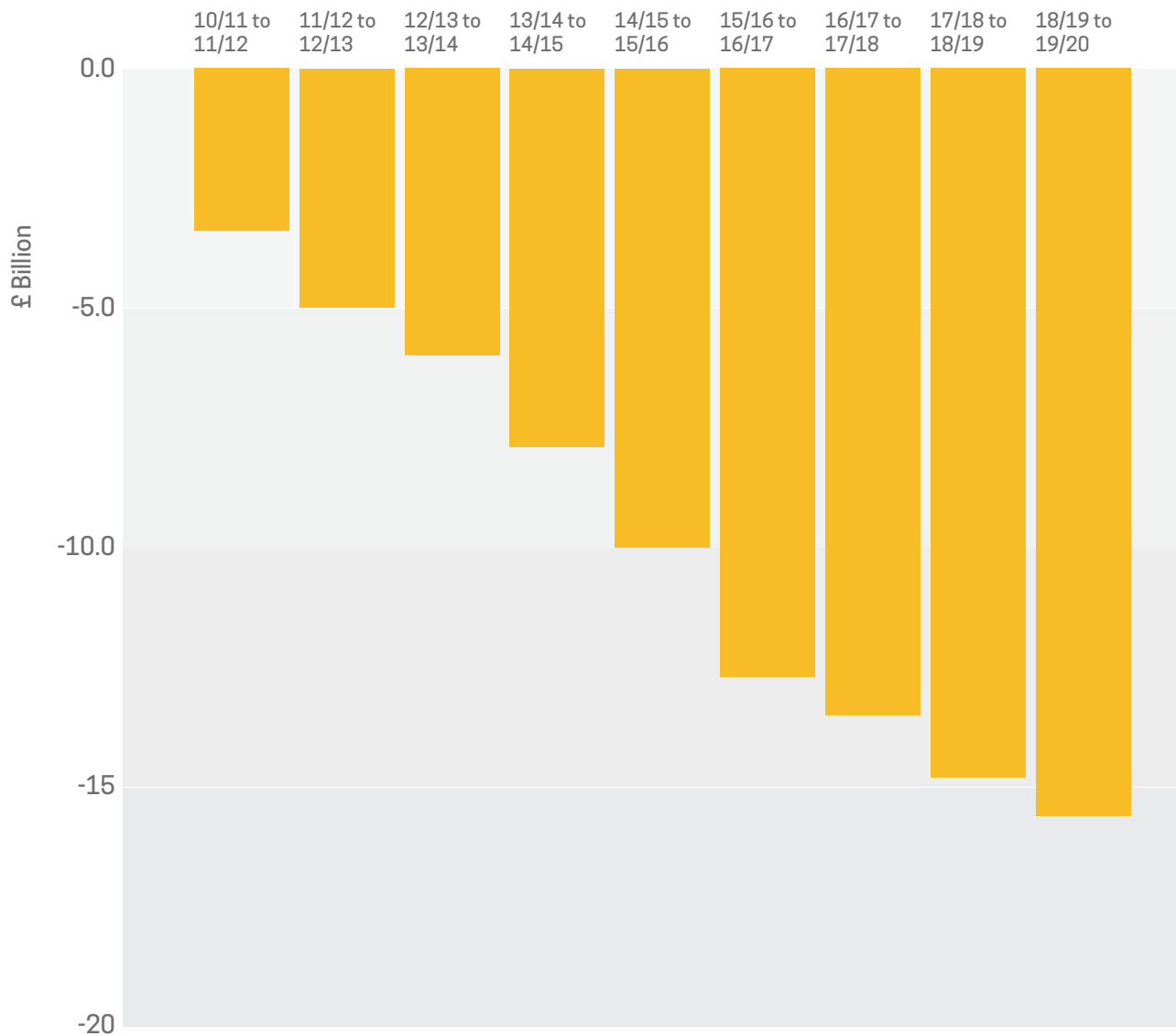
Find out more at www.local.gov.uk/moving-the-conversation-on

**Local services face
a £7.8 billion funding
gap by 2025**

The story of this decade

By 2020, local authorities will have faced a reduction to core funding from the Government of nearly £16 billion over the preceding decade. That means that councils will have lost 60p out of every £1 the Government had provided to spend on local services in the last eight years. Next year, 168 councils will receive no revenue support grant at all.

REDUCTION IN CORE GOVERNMENT FUNDING



In 2013, the responsibility for delivering public health services was transferred to councils. While funding for the NHS has increased year-on-year between 2015 and 2020, funding for public health will be reduced by 14 per cent; around £531 million.

Council tax support schemes are no longer fully funded, with £1.7 billion – nearly half of the original funding – removed between 2013 and 2020. Councils were also not given the full discretion to target and reform the schemes to make them truly local and help deal with the reductions in funding. As a result, more than 573,000 households no longer received council tax support in October 2017 in comparison to October 2013.

Local authorities in England now collectively keep half of business rates collected by local government. From 2020 the share that they collectively keep will be raised to 75 per cent and the main Government grants will be phased out. This will significantly change the make-up of council funding, increasing potential rewards but also risks, such as losses in income due to business rates appeals.

Alongside further retention of business rates, the Government is also reviewing funding of individual local authorities as part of its Fair Funding Review, which will have far-reaching consequences for all councils. Details of both of these reforms are still being debated, leaving little time for appropriate planning before April 2020.

Due to the tight timescales, these reforms contribute to a state of uncertainty which has resulted in councils making cautious assumptions about their budgets in anticipation of even greater funding reductions. This could unnecessarily impact on service levels, which are already suppressed due to funding reductions.¹ The Fair Funding Review should be introduced with additional resources so that no individual local authority is worse off.



¹ Business rates inquiry, Housing, Communities and Local Government Select Committee, 2018

How councils have responded

Councils have responded to the financial challenge by streamlining services and finding new and innovative ways of operating while still delivering the vital services their residents rely on.

There are now 550 shared services arrangements, with councils sharing the cost of a number of different services. These changes have achieved £805 million of cumulative efficiency savings – money which is being used to protect the delivery of valued public services to local communities.

Local government services have also become more efficient. For example, since 2010 council planning departments have cut spending by half. In spite of this, in 2016/17 councils granted planning permission for 321,202 new homes – up from 204,989 new homes in 2015/16. Councils are currently approving nine in every 10 planning applications.

Councils are also sharing best practice to drive down costs. While various factors influence the cost of delivering services in different areas, there has been a convergence. For example, on the basis of spending per adult, individual local authority adult social care spending was almost 15 per cent closer to the average in 2016/17 than in 2010/11.

Despite the sustained pressure on council finances and the fact that local government is close to exhausting all efficiencies, residents' trust in local government decision making remains much higher than that of central government.

Councils have innovated, reimagined and changed the ways they work to deliver significant savings and efficiencies. But there is only so much that they can do in the face of large reductions in Government funding, increasing demand for their services and without the local discretion to do things differently.

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Where are we now?

In spite of all the best efforts of local government, the reality of £16 billion of funding reductions and increasing inflation are having a negative impact and residents are starting to see the consequences of these cuts.

Increasing demand means council budgets are having to go further than ever before. On average, more than 500 child protection investigations were started each day in 2016/17, increasing from 200 a decade ago. Between 2012 and 2016, the number of homeless households supported by local authorities grew almost 11 times faster than the total population. Across England's local roads, there is a £9 billion backlog of pothole repairs.

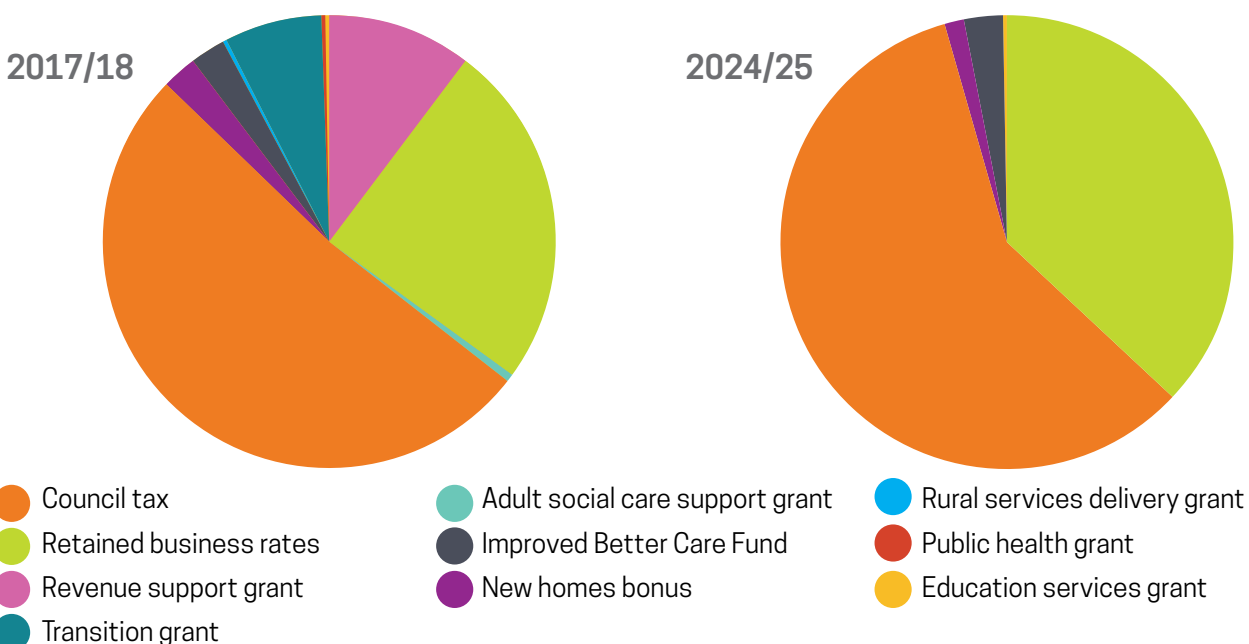
The adult social care provider market continues to be squeezed. Our updated analysis indicates a £1.44 billion pre-existing pressure because reductions to council funding mean that some councils have been forced to keep the prices of care they commission below a sustainable level in order to protect their most vulnerable residents. The Competition and Markets Authority has come to a similar conclusion.

This pressure is simply to sustain the care market in its current state – it doesn't cover the cost of supporting residents whose social care needs are currently unmet.

According to our previous funding gap analysis, in just one year between 2016/17 and 2017/18 councils had to absorb a funding shortfall of £2.4 billion. This means that, as well as the pressures on adult and children's social care, other council services will have also received unavoidable reductions. Councils now spend less on early intervention, support for the voluntary sector has been reduced, rural bus services have been scaled back, libraries have been closed and other services have also taken a hit.

In the face of these increasing pressures councils have been forced to draw on their financial reserves. These are the pots of money that councils keep as a measure of last resort, or for specific purposes such as self-insurance and projects which help with generating further income, making savings or improving services.

THE MAKE-UP OF COUNCIL FUNDING IS CHANGING



Looking ahead

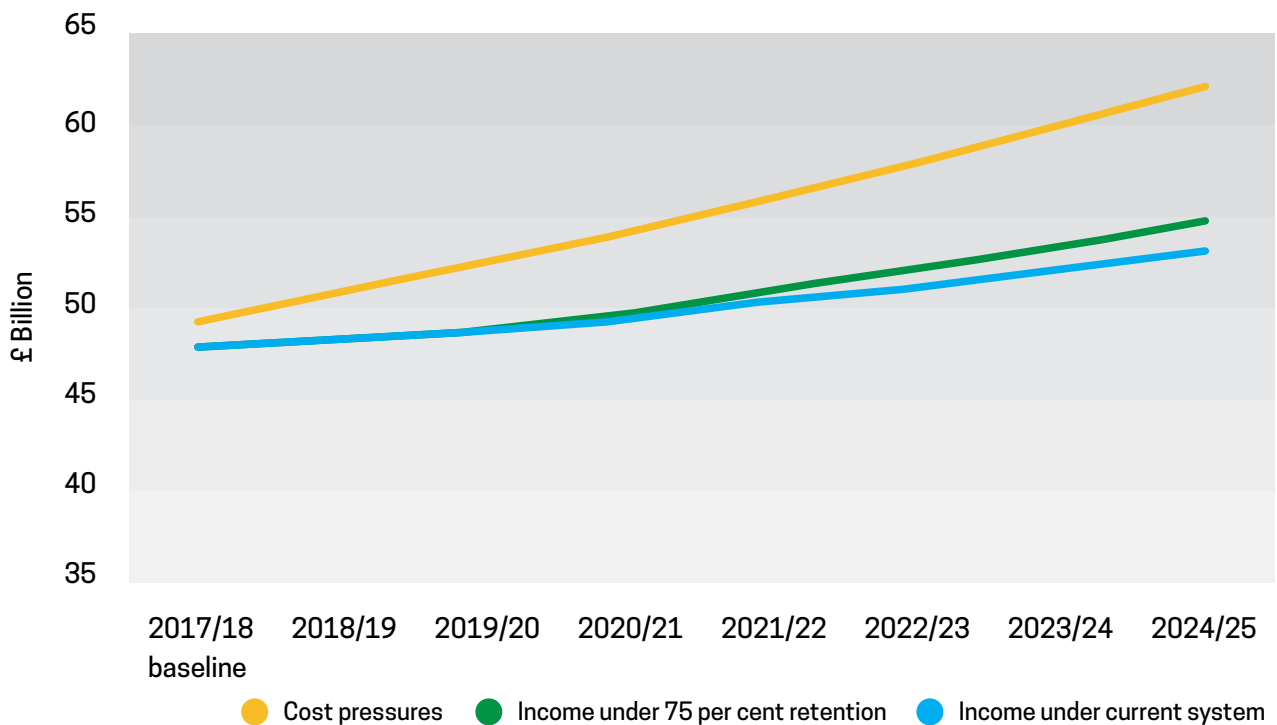
Our new analysis shows that local services face a funding gap of £7.8 billion by 2025.² This represents the difference between the cost of funding services at the same standard as in 2017/18, against funding that we estimate will be available to do so. This gap corresponds to keeping local authority services 'standing still' and only having to meet additional demand and deal with inflation costs. It does not include any extra funding needed to improve services or to reverse any cuts made to date.

Meeting the pressures related to social care, homelessness support and public health services will mean that spending on all other services would not increase by £2.6 billion to meet demand pressures, but would also have to reduce by at least another £5.2 billion from what it is today.

This predicted funding gap represents an immense challenge and only reflects the funding needed to maintain council services as they stand today and does not account for any unexpected cost pressures.

Reduced funding also means reduced capacity to invest in prevention. Ultimately this means worse outcomes for struggling children and families, more people with acute needs that must be met, reduced social mobility and a negative impact on the health of our population. If councils do not receive additional funding, difficult decisions will have to be made about which services to cut back on. But if the £7.8 billion gap was bridged, it could help councils to sustain all these services that residents rely on on a daily basis.

FUNDING GAP FACING LOCAL SERVICES



² For information on our methodology, and what this funding gap means for specific services and individual years between 2017/18 and 2024/25, please refer to our online technical annex.

Public Health England estimates that the cost to the NHS of poor housing lived in by older people (55+) is £624 million annually; and in 2014, health charity The Kings Fund estimated that every £1 spent on improving homes saves the NHS £70.³ Despite this, councils' spending on prevention continues to be reduced because funding is not available to both invest in prevention and deliver existing statutory services at the same time. This results in increasing unmet need for services such as social care and children's services.

Short term cuts to local government funding are a false economy. If councils are unable to fund sufficient support for older people, more of them will end up being admitted to hospital. Less money for children's services means our young people will only get by rather than thrive. Failing to maintain our highways now will mean higher costs later. These are just a few examples.

Continuing to provide a year's worth of residential care to **13,000** people and a year's worth of full time home care for **12,000** people.

Keeping libraries open, cleaning the streets, maintaining parks, monitoring food safety and providing concessionary bus fares for the elderly for a year.

Continuing to employ **15,000** social workers

£7.8 bn

If councils do not receive additional funding, difficult decisions will have to be made about which services to cut back on. But if the **£7.8 billion** gap was bridged, it could help councils to sustain all these services that residents rely on on a daily basis.

Disposing of waste and providing recycling services for a year.

³ Making the case for public health interventions. LGA/King's Fund, 2014

‘But surely you can...?’

Fix things through the Government’s Fair Funding Review?

While the review is welcomed by many councils, it is focusing on how resources are distributed between authorities rather than whether there are enough resources available in total. Any outcome of the Fair Funding Review will only be sustainable if it goes hand-in-hand with additional resources to local government as a whole so that no individual local authority is worse off.

Use the extra business rates – councils are set to retain 75 per cent from 2020?

The extra business rates will be off-set by the phasing out of revenue support grant and other grants in 2020. Our analysis already assumes business rates income grows by approximately 2 per cent a year.⁴ While this means that the funding gap may not grow as sharply after 2020, it will still not be enough to meet expected increases in demand for social care, help homeless families secure housing, or ensure our communities can thrive. In addition, there is still considerable uncertainty over income loss caused by business rates appeals, aggressive avoidance, and changes in government policy over reliefs.

Charge businesses higher rates?

Councils have no powers to impose an increase in business rates. And even if they did, this would mean we risk harming the local economy. Business rates also require reform to be more equitable – in particular, successful businesses focussed on the internet economy and knowledge economy are not paying their fair share.

Increase council tax?

Already in 2017/18, council budgets for social care are larger than the total amount collected in council tax. Our analysis already assumes that council tax income will rise by approximately 3 per cent each year across England after 2020.⁵ Council tax increases are also effectively capped by the Government through the referendum policy. While we are calling for the referendum limits to be abolished, local council tax payers cannot shoulder this burden alone. Residents already contribute to services through council tax and using local taxation to solve a problem of national magnitude is not the answer. Sufficient financial support from central government is required.

Save more through further efficiencies in high spending councils?

According to our previous analysis, councils have had to meet a funding shortfall of £2.4 billion in just one year between 2016/17 and 2017/18. And meeting the funding gap in full through cost savings alone would mean that councils have to find efficiencies of 13 per cent on average; they already run highly efficient services. However, even if this were deliverable, one size does not fit all. There are various factors that influence the cost of delivering services in different areas that are related to local circumstances. This is one of the principal reasons for the Government undertaking a Fair Funding Review; simply distributing funding on the basis of population size or some other single measure would not reflect unavoidable differences between local authorities in the demand and cost of providing services.

⁴ In line with OBR projections 2018, for further information please refer to the online technical annex

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Total council tax raised by councils in England 2017/18 was **£23.082bn**⁷

Council tax raised £23.082bn

Social care spending £23.651bn

This is less than the net adult and children's social care budget in England in 2017/18 which is budgeted as **£23.651bn**⁸

1 in 10

The National Audit Office warns that if social care authorities continue to use reserves at the rates they did in 2016/17, **1 in 10 will not have anything left in three years' time.** We estimate that if all councils used reserves only to fund the funding gap, they would run out of reserves by 2022.

£624m

Public Health England estimates that the **cost to the NHS of poor housing lived in by older people (55+) is £624 million annually;** and in 2014 health charity The Kings Fund estimated that every **£1** spent on improving homes saves the NHS **£70.**

Use reserves?

Reserves are one-off pots of funding which are either kept by councils to be used for specific projects, or as a last resort when no other options are available. The National Audit Office warns that, if social care authorities continue to use reserves at the rates they did in 2016/17, one in 10 will not have anything left in three years' time. And we estimate that if all councils stopped every single reserves-funded project, and only used reserves to fund the gap, they would be used up by 2022.

Put up fees and charges?

Most fees and charges are regulated by the Government, limiting councils' ability to do so. Very often, these charges can only be used to recoup the cost of providing particular services. For example, fees and charges for adult social care are nationally regulated and subject to means tests and their contribution to funding will no doubt be considered in the forthcoming green paper. Licensing and planning fees continue to be controlled from Whitehall too. The income from more flexible fees and charges is too small to deal with the financial challenges and increasing charges could have the effect of reducing usage of services, leading to worse access and lower income.

⁶ Council tax requirement return, Ministry of Housing, Communities and Local Government, 2018

⁷ Revenue Account Budget, Department for Communities and Local Government, 2017

Seeking solutions: the 2019 Spending Review

Local government has sustained disproportionately large reductions in Government funding over this decade in comparison to other parts of the public sector. Continued lack of funding for councils will have serious consequences in our communities.

Councils are responsible for growing the national economy through the development of their local economies. Investments by councils in their areas foster thriving local economies across the country, helping to build more homes, secure the infrastructure essential to growth, and equip people with the skills they need to succeed.

As the 2019 Spending Review approaches we are continuing to work hard to ensure that the Government delivers a sustainable funding settlement for local government, and to convince HM Treasury to unlock investment into prevention and early intervention alongside additional financial freedoms and flexibilities for councils.

Investing in local services will directly ensure residents can live with dignity, achieve their goals and aspire to do more than just get by, as well as helping to reduce pressures on the rest of the public sector.

We are highlighting the funding gap facing local services by 2025 to illustrate that, despite council's extensive work to make services more cost efficient, many local authorities are at the tipping point. The bottom line is that while local government has coped well, become more efficient and represents good value for money, services such as social care, children's services and homelessness support are under unbearable pressure. **The failure to properly fund these services puts the wellbeing of some of the most vulnerable residents at risk, and this cannot go on.**

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