1. Executive Summary

1.1 Public services need to be financially resilient and our communities made sustainable. These themes should be at the heart of discussions leading up to the 2019 Spending Review.

This response sets out CIPFA’s thinking under the following headings:

- local government’s current financial situation
- sustainability of the current funding system
- how data can be used to meet funding needs.

1.2 CIPFA’s research\(^1\) shows local government funding has been falling, something corroborated by other organisations such as the National Audit Office. This rate of decline is not sustainable in the face of rising demand and costs. The 2019 Spending Review needs to provide a good settlement for local government and embed sustainability for the future. Current funding levels are not sufficient for local authorities to meet growing demand and CIPFA has concerns about the sustainability of a small number of local authorities.\(^2\)

1.3 Moving towards longer term planning\(^3\) and greater financial certainty would improve financial sustainability and resilience in the public sector. More funding certainty will facilitate better decision making and improved financial planning. Even within the current spending plans greater certainty around grant allocation would lead to an improvement in financial decision making.

1.4 An independent body, established to provide advice on local government funding requirements to government, may be part of the solution.

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\(^1\) CIPFA Statistical Data, April 2019

\(^2\) Measured Resilience in English Authorities, CIPFA 2018

\(^3\) CIPFA Financial Management Code, 2019
1.5 More could also be done to improve the transparency around the spending of public money. Public services should be accountable and citizens informed about how their taxes are spent.

1.6 Local government has struggled to compete with other sectors, primarily the NHS, for funding. This is despite the better health outcomes and improved value for money which could be achieved through the alignment of the NHS with local public services, including the integration of health and social care further and a focus on preventative interventions.\(^4\) If the public sector is to maximise achievable long-term outcomes then greater alignment of local services is key. Central government has a part to play in ensuring a financial framework that encourages this delivery.

1.7 CIPFA supports local place-based solutions for public services\(^5\), however we continue to have concerns over the financial resilience of the local government sector in the longer term. Our research\(^6\) provides evidence that, although the majority of English\(^7\) councils are in a stable position, there is a tail of 10-15% where there may be potential risks to financial stability in the short term.

1.8 The current funding position of local government places an emphasis on council tax as the means of securing revenue and we have seen average increases of 4.9% for 2019/20.\(^8\) Continuing to exert revenue pressures of this scale on households could be unsustainable. The government should look again at reforming council tax to address its underlying weaknesses and better meet funding needs.\(^9\)

1.9 Local government funding is not exclusively influenced by policy decisions affecting the revenue account. Decisions about investment also have a significant impact on long-term funding and sustainability. There are a number of restrictions placed on local government that act as barriers for good financial decision making and these should revisited. Restrictions around right to buy are a priority and should be reviewed\(^10\).

1.10 We can do more with the collection and use of data. Smarter use of data benefits both the allocation of funding and the transparency of that allocation. These developments should be made in collaboration with the sector.

2. **Local government’s current financial situation**

2.1 The financial context for local authorities in England is stark. The NAO\(^11\) has identified a 49.1% real-terms reduction in government funding for

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\(^4\) The Practicalities of Integration, CIPFA 2018  
\(^5\) Aligning Local Public Service Framework CIPFA 2016  
\(^6\) Measured resilience in English Authorities, CIPFA 2018  
\(^7\) Research English only  
\(^8\) CIPFA Council Tax Statistics 2019  
\(^9\) The case for reform – Developing a Council Tax fit for the 21st Century CIPFA March 2019  
\(^10\) Investing in Council Housing – the impact on HRA business Plans 2016
local authorities between 2010/11 and 2017/18. In terms of overall spending power, made up of government funding and council tax, there has been a 28.6% real terms reduction over the same period.

2.2 Spending pressures on social care have risen, and while authorities have made efforts to maintain levels of spend in this area, it has been at the expense of other services. The real-terms spending reduction on non-social care services over the period 2010/11 to 2017/18 has been 32.3%, compared to just 3% on social care services. Authorities also overspent by £901m in 2016/17, with a significant number drawing on financial reserves to balance their budgets.

2.3 There are also regional variations, with the East Midlands and North East experiencing the biggest reductions in total service expenditure between 2008/09 to 2017/18: -11.60% and -12.08% respectively. The lowest rate of decreases is focused around the South East.

2.4 The clear message emerging from this is the need to consider and address the long-term financial sustainability and resilience of local authorities. An independent body should be set up to advise central government on the funding needs of local government with a view to ensuring sustainable funding is in place. Multi-year settlements should also be continued and developed to provide greater certainty and transparency for local government planning, and shift away from short termism.

2.5 Recognition of the role of local government in the integration of health and social care is essential if we are to ensure social care does not place additional pressure on the NHS. The Spending Review should provide local government with adequate funding for adult social care to alleviate NHS pressures and encourage further integration.

2.6 In developing the NHS Long Term Plan, NHS Improvement has identified 'enablers', including 'funding and financial architecture' and 'capital and infrastructure'. In adopting these enablers, consideration should be given not only to how they can help the NHS, but to how they can be developed to enable better integration and partnership.

2.7 In particular this would include local government to support and encourage further integration of health and social care and break down the barriers and challenges currently in place. These challenges include the disparate funding and financial frameworks, and the use of capital assets of all partners to provide best value and service improvements.

2.8 The current systems of allocating public money to UK government departments, primarily through the Estimates process, but also the Budget announcements, falls short on a number of levels. The process is inherently opaque, with initial allocations negotiated behind closed doors.

11 NAO: Financial sustainability of Local Authorities, March 2018
12 NHS Improvement, Developing the long-term plan for the NHS, August 2018
Opportunity for scrutiny of the Estimates themselves is limited, with little opportunity for debate in Parliament, or for public examination of the decisions taken.

2.9 The current process makes it extremely difficult to 'follow the money' from allocation through to the final accounts as information is not clearly presented on a consistent or comparable basis.

2.10 More could be done to improve the transparency of the government's use of public money in order to be accountable to citizens about how their taxes are spent.

2.11 The current budget scrutiny process should be reviewed in order to provide:

- Greater encouragement for parliamentary committees to engage more broadly in the process. For example, they could be given flexibility to incorporate budget scrutiny, including public engagement, into their work prior to the publication of firm and detailed spending proposals.

- Appropriate scrutiny with an emphasis on developing an understanding of the impact of budgetary decisions over a number of years, including budgetary trends. This should encourage a focus on more preventative spending interventions rather than short-term reactive allocations.

- Scrutiny that evaluates what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes and cross-sector collaboration. Scrutiny should focus on the interdependence of the whole range of policy areas that budgets are seeking to support.

- Scrutiny that prioritises fiscal responsibility addressing fiscal constraints and the impact of increasing demand for public services from both demographic changes and cost pressures.

3. **Sustainability of the current funding system**

3.1 Current funding levels are not sufficient for local authorities to meet growing demand and CIPFA has concerns about the sustainability of a small number of local authorities. The current method of funding local government is through a combination of council tax, business rates and grants that have been reducing. It is unlikely that funding will keep pace with ever-increasing demand.

3.2 CIPFA supports the initiatives currently under way, including the current business rates and fair funding consultation. But these measures alone do not provide the foundations for long-lasting reform and merely continue the short-term responses we have seen so far.

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13 Measured Resilience in English Authorities, CIPFA 2018
3.3 Public bodies should be less protective over their individual resources and work towards more integrated and preventative measures to support better outcomes in local communities. Decision making should also be devolved to a local level to ensure decisions reflect local circumstances and all locally available funding streams.

3.4 Delivery of public services should change and consideration should be given to the work CIPFA has done on Aligning Local Public Services (ALPS). Improved collaboration, underpinned by a financial framework that encourages this activity, should be central to any long-term approach.

3.5 In our response to the fair funding review in March 2018 we called for a review of the statutory services that have to be delivered within the current funding envelope. We note with disappointment this has not been taken forward.

3.6 CIPFA is working with other stakeholders to generate a conversation that looks at the challenges faced by the sector and the long-term funding options for local government. Our work with the Institute for Government on Performance Tracker is an example of this thought leadership.

3.7 In 2020, local authorities will retain 75% of business rates and this will give local government greater control over the money it raises. However, it is necessary for all parties to acknowledge that this brings with it additional risk.

3.8 Strong financial management plays an important part in the reduction of risk, improved transparency and greater financial understanding. CIPFA is currently developing with the sector a new Financial Management Code to support this.

3.9 The local authority housing sector has struggled to compete with other housing providers for funding, and changes that improve capacity to deliver such as the new borrowing flexibilities are welcome. Our research Investing in Council Housing made a series of recommendations aimed at restoring the potential that was created by the 2012 settlement to allow local authorities to build council housing and CIPFA continues to support this policy.

3.10 Solutions for public services should be locally focused and local authorities are best placed to decide on approaches and delivery at that level. In terms of council house building, this may be through a combination of approaches, including partnership with both housing associations and/or the private sector, but to support a sustainable funding framework it should not disadvantage local authorities.

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14 CIPFA Thinks Report: Aligning Local Public Services, 2016
15 Institute for Government Performance Tracker, October 2018
16 CIPFA and CIH investing in Council Housing 2016
17 CIPFA Thinks Report: Aligning Local Public Services, 2016
3.11 The current right to buy policy is a particular concern and CIPFA would encourage the government to review this and consider letting councils retain all of the money from sales. It should also consult on giving councils flexibility around levels of discount and exclusions where this is the right local choice. Housing challenges are predominately local and a national policy solutions is not always appropriate.

4. **The potential of data to facilitate funding needs assessments**

4.1 Some of the data underpinning the Review of Relative Needs and Resources is not particularly timely. For example paragraph 2.2.32 identifies data from 2011. If data is not current the decisions of which it is based will lack credibility. While it may not be possible to have real-time data every effort should be made to maximise new technology to capture the correct and most relevant information. Lessons should be learnt regarding the availability of data and the sector and department may find it beneficial to review data collection in the light of new technology and explore how this can improve Spending Review decisions.

4.2 Under the current financial constraints the resources available for data collation by local authorities are restricted. This especially relates to staff time, funding for developing and establishing data collation systems, and the future costs of maintaining and verifying data on an ongoing basis. It is appropriate and understandable that, in support of transparency and accountability for the use of taxpayer funding, local government provides financial and other data to central government. In relation to new data requests, above those already committed to, due consideration should be given to the costs and benefits arising from such requests. Requirements for additional information may, in some cases, represent a funding pressure for local government and this should be explicitly recognised in determining the requirements.

4.3 The process should informed by the use of independent technical statistical expertise that can provide robust challenge as the detailed work progresses. This last point also reflects learning from the recent formula review work elsewhere in Whitehall.18

4.4 CIPFA would also argue that the ability to make decisions based on robust evidence and independent analysis reduces the opportunity for political judgement. CIPFA considers that ministerial judgement should be minimised in this area.

April 2019

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18 House of Commons Library briefing *School funding in England. Current system and proposals for ‘fairer school funding’*, June 2017