Written evidence submitted by the Local Government Association [FSR 006]

1. About the Local Government Association

1.1. The Local Government Association (LGA) is the national voice of local government. We are a politically-led, cross party membership organisation, representing councils from England and Wales.

1.2. Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.

2. Summary

2.1. The LGA welcomes the chance to submit evidence to this inquiry. Local government should have a sustainable funding system which provides the resources councils need to deliver local services.

2.2. Core Government funding to councils has decreased by over £15 billion since 2010. Despite efficiencies this has inevitably meant reductions to valuable local services.

2.3. The Public Accounts Committee has expressed concern, stating in its most recent report, that the financial position of local authorities continues to deteriorate amidst rising demand for vital services and that the Government has a short-term view of sustainability in the sector.

2.4. We have repeatedly expressed our concern about the funding gap facing local government. We estimate that without more resources in the sector, there will be a funding gap of an estimated £8 billion in 2024/25. This gap reflects the minimum funding needed to sustain services at current levels and does not assume the reinstatement of services that have been cut or significant service improvements. These pressures are particularly acute in adult social care, children’s services and homelessness support.

2.5. We are taking a positive approach to working together with HM Treasury, MHCLG and other relevant government departments to make the case for local authority funding. Our aim is to ensure that the importance of sustainable local services is recognised throughout all relevant central government spending.

2.6. There is a lack of clarity over the future funding for local authorities. With further Business Rates Retention, the results of the Spending Review and the outcome of the Fair Funding Review all being implemented from April 2020, local authorities have no reliable basis on which to appropriately plan their budgets even in the short term. At the moment it is unclear how much funding there will be from April 2020, how it will be distributed, and the means of delivery.

2.7. Until these ongoing reforms are clarified and completed, services will continue to suffer from a lack of meaningful financial planning. This will
inevitably impact on current and future provision, meaning that some of the services residents rely on may be curtailed or stopped altogether.

2.8. Our #CouncilsCan campaign aims to build support among the public, councils, Parliament and central government for long-term investment in local government at the Spending Review. We are demonstrating that with the right funding and powers, councils can continue to lead their local areas, improve residents’ lives, reduce demand for public services and save money for the taxpayer. The 2019 Spending Review will be make or break for vital local government services.iv

3. What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services.

3.1. There have been substantial changes to local government funding in the last decade. Some of the most important are:

3.1.1. An unprecedented reduction in core Government funding to councils of over £15 billion since 2010, which has taken place alongside significant and growing demographic pressure on services such as adult social care, children’s services and homelessness and continues to pose huge challenges for councils.

3.1.2. The introduction of 50 per cent business rates retention since 2013/14, at the same time as these reductions were implemented.

3.1.3. Changes to council tax, including the replacement of council tax benefit by local council tax support. The Government’s policy of encouraging council tax freezes up to 2016 followed by a policy of assuming maximum possible council tax rises (in line with referendum limits) in Core Spending Power plus the introduction of an adult social care precept.

3.1.4. The effects of substantial parts of funding to councils being ring-fenced for particular purposes, including most schools funding from 2006 and public health funding, which was transferred from the NHS to councils and paid through a ring-fenced grant.

3.1.5. Along with the introduction of welcome multi-year settlements, the less welcome ‘cliff-edge’ effect as councils in the last year of a funding period have no certainty as to their funding for the following year, as is the case in 2019/20.

3.2. These points are expanded on below.

Reductions and sustainability

3.3. As the Public Accounts Committee has said, after seven years of local government funding reductions totalling nearly 50 per cent and rising demand for services, local authorities are under real strain. It comments that key services supporting vulnerable people such as adults and children’s social care and housing services are under enormous pressure and other services such planning, transport and cultural
services have seen spending cut by at least a third and in some cases as much as 50 per cent. The Committee further commented that some councils are now in an extremely worrying position. The result is a funding gap, which recent LGA analysis estimates will be £8 billion in 2024/25.\textsuperscript{vi} The Government has announced a series of short-term grants, for example for winter pressures, but these time limited resources, often announced late in the day, do not facilitate effective financial planning.

3.4. As we warned in our 2018 Autumn Budget submission, there is a real risk to the future financial viability of services and councils.\textsuperscript{vii} Many local authorities will reach the point where they only have the funds to meet statutory responsibilities. Councils are increasingly unable to provide dignified care for older and disabled people, protect children, boost economic growth, fill potholes, build homes, and much more. When councils are forced to reduce spending on services such as prevention, it can have negative longer term consequences and increase the cost of meeting statutory responsibilities. This will increase the burden for the future both for councils and other organisations such as the NHS and the Police.

3.5. Adult social care is experiencing unprecedented demands due to demographic change (people living longer and requiring care for a longer period of time) and this has put a strain on the adult social care system. The LGA estimates that since 2010 councils have had to bridge a £6 billion funding gap to keep the system going.\textsuperscript{viii} The adult social care provider market continues to be squeezed 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 balance their budgets.

3.6. Children’s services are facing a situation where ongoing cuts to national funding for preventative services mean that children and families are entering the child protection system in record numbers. On average, councils started more than 500 child protection investigations every day last year – up from 200 a decade ago – and the number of children in the care system increased at the fastest rate since 2010.\textsuperscript{ix} Increasing demand-led pressures, combined with the funding gap mentioned above, means councils are finding it increasingly difficult to continue to provide high quality support to children and families who need it.

3.7. The last six years have seen a 44 per cent increase in the number of homeless households. Last year there were 4,751 rough sleepers living on our streets, more than double the number recorded in 2010. The changes and spending reductions introduced under welfare reform appear to be contributing to pressures on local government services. For example, there is a potential link between welfare reform and increases in rent arrears, housing insecurity and demand for temporary accommodation.
3.8. In response to the cuts to local government funding and the rising demand for services, councils have become more efficient. Examples include:

3.8.1. Sharing services has delivered estimated savings of over £1 billion in areas such as anti-fraud, procurement, revenues and benefits, community safety, trading standards and public health.\textsuperscript{x}

3.8.2. Savings through the One Public Estate programme delivered in partnership by the LGA and the Office of Government Property within the Cabinet Office. By 2020, projects are expected to deliver £615 million in capital receipts and £158 million in running cost savings, create 44,000 jobs and release land for 25,000 homes.\textsuperscript{xi}

3.8.3. Since 2009/10 councils have reduced expenditure on planning by around 50 per cent, yet are granting at least 20,000 more applications a year. Councils have also increased the proportion of applications processed in a timely manner by over 10 percentage points, to more than 80 per cent.\textsuperscript{xii}

3.8.4. Between July 2017 and July 2018, delayed transfers attributed to social care fell by 37 per cent. This compares to a fall in delays attributable to the NHS of 15 per cent. Delays due to NHS are about 50 per cent higher than delays attributable to social care.\textsuperscript{xiii}

3.8.5. A number of key health outcomes have improved since responsibility for public health transferred to local authorities, despite the spend in several areas falling, primarily due to government reductions in public health funding. Improved outcomes relate to reductions in the number of premature deaths, new cases of sexually transmitted infections and adult smoking prevalence.\textsuperscript{xiv}

3.9. Savings have also been made through a real term reduction in salaries of almost 14 per cent\textsuperscript{xv} and cuts to staff of 30 per cent of the workforce.\textsuperscript{xvi} Savings such as this have put real pressure on services and low paid people and have resulted in unavoidable reductions in or changes to services. Satisfaction with council services has now dropped to its lowest level since tracking started in 2012.\textsuperscript{xvii}

3.10. These reductions have not been distributed equally. For example, the Institute of Fiscal Studies has shown that due to variations in the share of council revenue coming from council tax and government grants (including redistributed business rates) and a broadly proportional way of allocating reductions up to 2016/17, the local authorities that received the largest share of their funding from government grants in 2009/10 experienced the largest cuts to their service spending by 2016/17.

3.11. Much of the variation of spend is outside of local authority control. For example, LGA research shows that for children’s services, expenditure varied from £274 per head to £1,057 per head.\textsuperscript{xviii} It is possible to explain 71 per cent of this variation by a variety of socio-
economic factors, of which disability, size of the young person population, problems affecting young people, and deprivation were the most important types of factors.

**Business Rates Retention**

3.12. From 2013/14 councils have had a system where at least 50 per cent of business rates is retained within the sector. Individual councils are able to retain at least 50 per cent of business rates growth above a baseline, updated for inflation each year. There is a system of top-ups and tariffs which compensates councils for difference between need, as measured by their funding baseline, and ability to raise business rates, and also a system of levies and safety nets for disproportionate gains and losses.\textsuperscript{xix}

3.13. It is important to note that this policy of 50 per cent retention has allowed the remaining 50 per cent, the central share, to be used as a mechanism of effecting reductions. This is because it can be used to pay any grant to local government. Initially it was used to pay Revenue Support Grant, which has reduced from over £15 billion in 2013/14, when it exceeded the Central Share by £4 billion, to £2.3 billion in 2019/20\textsuperscript{xx}, meaning that other grants to local government are paid through the Central Share instead of being paid as grants direct from the Exchequer.

3.14. In 2015 the Government announced its intention to move towards 100 per cent business rates retention in the lifetime of the Parliament elected in May 2015, and to abolish the levy. This and other measures were included in the Local Government Finance Bill which fell when the 2017 General Election was called. Following the election the Government did not reintroduce the Bill and following consultation announced its intention to move to 75 per cent business rates retention from April 2020.

3.15. The impact of business rate appeals on local government has become a key risk for business rates retention, particularly after the introduction of 50 per cent business rates retention in 2013, when local government also became liable for 50 per cent of any backdated appeals and had to make provisions accordingly. It was estimated in March 2017 that £2.6 billion was held in provisions for appeals by local authorities, mostly against the 2010 valuation list. These are resources which could be spent on local authority services which are already under severe pressure. There should be a time limit to appeals. In Scotland there is a time limit of six months for appeals after the commencement of a given rating list.

3.16. In 2018/19, according to MHCLG figures, local authorities are estimating that they will retain £2.4 billion.\textsuperscript{xxi} Business rates retention is considered further in section 4 below.

**Council tax**
3.17. In the earlier part of the decade council tax fell in real terms, with average Band D, as adjusted for inflation falling by 4 per cent from 2010/11 to 2014/15 and then rising by 8 per cent to 2018/19.\textsuperscript{xxii} The main reason for this was the Government policy of encouraging council tax freezes combined with low council tax referendum thresholds in the years until 2015/16. Following that council tax has risen due to both higher referendum thresholds and, from 2016/17, the adult social care precept. In total this has meant that the amount raised through the council tax yield assumed in the Government’s core spending power figures will have risen by over 26 per cent from in the four years from 2015/16 to April 2020.\textsuperscript{xxiii} Although the resources are welcome, the income is unevenly distributed due to the different abilities of different areas to raise council tax and the impact on residents of year on year rises in council tax of 4-6 per cent should not be underestimated.

3.18. A significant change was the abolition of council tax benefit in 2013/14 and its replacement with local council tax support schemes. There was an initial cut of 10 per cent in funding and further cuts as the main funding was rolled into settlement funding and then reduced accordingly. We estimate that the total reduction in external support for council tax support up to the end of the decade is almost £2 billion.\textsuperscript{xxiv} Councils have had no choice, faced with the other pressures detailed above, but to reduce support. This reduction is not distributed evenly. As the Institute of Fiscal Studies has recently said, more deprived councils have been more likely to introduce minimum payments than other councils – but only because they received larger cuts to Council Tax Support funding from central government.\textsuperscript{xxv}

3.19. Further points about reforms to the council tax are dealt with below.

Effects of ring-fenced funding

3.20. Most grants are ring-fenced with the largest of them being Dedicated Schools Grant, now almost £45 billion a year and also including public health grant, over £3 billion a year. Ring-fenced grants remove flexibility and can lead to central priorities taking precedence over local priorities. They also lead to problems when there are particular pressures on services within or linked to ring fences. One example arises from pressures on Special Educational Needs and Disabilities (SEND) budgets. Research undertaken on behalf of the LGA by the Isos Partnership, an independent consultancy, which was published in December 2018, found that councils are facing a high needs funding shortfall of £472 million in the 2018/19 financial year and this funding gap could rise to £1.6 billion by 2021.\textsuperscript{xxvi} Despite the significant transfer of funding from the schools’ block and drawing down of reserves, the net effect of increasing demand for services and support over the last four years has left local government with a significant and increasing deficit which in many cases falls on general funding rather than the Dedicated Schools Grant.
Multi-year settlements and cliff-edges

3.21. Local Government has welcomed settlements which cover more than one year at a time as they allow for forward planning and a more efficient allocation of resources. The current four year settlement covers the period from 2016/17 up to and including 2019/20. Ninety-seven per cent of councils signed up to the four year deal. However there is no certainty of funding beyond this period with questions over the continuation of funding streams within core spending power such as the Improved Better Care Fund and the New Homes Bonus, as well as the Better Care Fund which is not included in Core Spending Power. It could be argued that government is constrained by Spending Review periods. We would argue that there should be multi-year settlements tied to the life of a Parliament in order for these ‘cliff-edges’ to be kept to a minimum, although multi-year rolling settlements which cover more than one spending review period would be one way of getting rid of cliff edges altogether.

Right to buy receipts

3.22. We welcome proposals for greater flexibility on the use of Right to Buy (RtB) receipts which MHCLG consulted on in 2018, and are keen to see the response on the next steps soon and the recognition of the challenges councils face in replacing homes sold under the RtB. The recent announcement to lift the Housing Revenue Account Borrowing cap provides a real opportunity for councils to build more homes, which can be more fully realised with further reforms to the RtB. The LGA has long argued for reform of the rigid restrictions on the use of RtB receipts. Recent research for the LGA by Savills revealed that two thirds of councils will have no chance of replacing homes sold off under RtB on a one-for-one basis in five years’ time unless a significant restructuring of the scheme takes place.

3.23. The current Government proposals do not go far enough in realising the potential and aspirations of local government. In particular, it must allow all councils maximum opportunity to build housing. All councils must be able to retain 100 per cent of their RtB receipts, and must be able to set RtB discounts locally in order to align with local market conditions.

3.24. All councils need certainty and freedom to find creative solutions to their individual housing challenges, and they – like the private sector and housing association sector – need a stable policy and financial environment in which they can be confident in making long term investment in new and existing housing.

4. The efficiency, fitness for purpose and sustainability of the current system for funding local government (central government funding, council tax, business rates retention and other income); how it could
be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions.

4.1. As can be seen from the previous section the current system of funding local government is not efficient, fit for purpose, nor sustainable. This is due to a reduction of long-term funding, short term grants with no guarantee of continuation, limits on council tax freedoms and flexibilities and business rates retention which has only partly mitigated the grant reductions. This section suggests measures that could be taken to improve the situation.

Central government funding

4.2. Local government needs to be provided with long-term funding which meets current pressures and future pressures and new burdens. This should be through a combination of ending the reductions to settlement funding, using further business rates retention to meet the funding gap facing local government and ensuring that no authority loses out from the results of the Government’s review of relative needs and resources. However, pressures on councils’ budgets mean that council tax and current plans for business rates retention alone will not be sufficient to sustainably fund the sector. Some form of additional funding will be needed - with some options set out in our green paper on Adult Social Care and some other options potentially achievable through some further fiscal devolution, for example a tourist tax.

Council tax

4.3. The current situation, with referendum limits and an adult social care precept is not a sustainable solution. Increasing council tax, or introducing a social care precept, raises different amounts of money in different parts of the country, unrelated to need, a point which should be addressed in the Fair Funding Review. This also adds an extra financial burden on already struggling households. To meet the £8 billion 2024/25 funding gap (which already assumes 3 per cent increases in council tax income from 2020/21 onwards) through council tax alone, council tax income would have to go up by a further 25 per cent, or an approximate 44 per cent in total from what it is projected by the Government to be in 2019/20.

4.4. We have consistently opposed nationally set referendum limits. No national tax is subject to a referendum. The council tax referendum limit needs to be abolished so councils and their communities can decide how local services are paid for, with residents able to democratically hold their council to account through the ballot box.

4.5. We would like to see reforms to the council tax such as:

4.5.1. Allowing more freedoms and flexibilities including the ability to set discounts which are currently fixed by statute such as the compulsory 25 per cent discount where there is only one council tax payer in a property.
4.5.2. Fully funding council tax support schemes through settlement funding.

**Business rates retention**

4.6. We want to see a business rates system which is responsive to local needs and fair to all which promotes growth through incentives. Local government has strong interest in a reformed business rates system which commands confidence. An income which keeps up with demand is also important given the pressures on local government discussed above.

4.7. We therefore supported the Government aim, announced in October 2015, to introduce 100 per cent business rates retention by the end of the Parliament. We support the increase to 75 per cent business rates retention planned from April 2020 and consider that the Government should introduce 100 business rates retention when parliamentary time permits. We support the continuation of a system of top-ups and tariffs to equalise between funding need and ability to raise business rates for different councils.

4.8. The remaining 25 per cent of business rates should be retained by local government to bridge the funding gap in 2019/20 which we estimate to be over £3 billion in 2019/20, and £8 billion in 2024/25, and to ensure that no authority loses out as part of the current Fair Funding Review (see below). We have recently responded to an MHCLG consultation on business rates retention and look forward to working on the next steps with colleagues in MHCLG and the sector on technical changes concerned with the balance of risk and reward and reducing risk from appeals.

**Business rates**

4.9. We also wish to make some points about improvements which could be made to business rates as a tax. Property continues to provide a good basis for business rates as it is efficient and 98 per cent of business rates are collected in year. However, we need to rethink how ‘property’ is defined. Many fundamental concepts such as beneficial occupation have been set by case law and not by statute, leading to results which may seem puzzling to the public, such as the fact that large vacant sites may not pay business rates. We proposed in our response to the Government’s 2015 review that the Government bring forward changes in the basis of the valuation so that more is defined in statute. We continue to support such an approach and how this is framed should be the subject of a further consultation involving the LGA and the sector.

4.10. We are conscious of the effect of online businesses and the challenge that this poses to traditional businesses and to business rates as a tax since, if an activity can be carried out online without the requirement for premises this will reduce the yield of business rates which goes to both central and local government. However it may lead to other activities that will pay business rates, such as distribution...
warehouses or businesses which start off online and then decide to open physical premises. We consider that taxation should be fair for both physical and online businesses.

4.11. Local government should be able to set its own business rates multiplier and would like to see flexibility to set a multiplier (p in the £) above and below the nationally set multiplier. The measures in the 2016-17 Local Government Finance Bill gave the power to vary the multiplier downwards to all and gave to directly elected mayors of combined authorities the power to levy an infrastructure premium of up to 2p in the pound. We would like to see this power extended to all.

4.12. The system of reliefs and exemptions should be reviewed with a view to allowing greater discretion by councils. The current relief system is very heavily weighted towards centrally determined reliefs. The ability to give reliefs, both mandatory and discretionary, is determined by statute, central regulations and case law. If local authorities had more discretion in this area they would be able to help local and independent businesses in order to stimulate the local economy.

4.13. We are concerned about the amount of business rates avoidance. In February 2015, we submitted evidence in response to a Government discussion paper on business rates avoidance based on a survey that we carried out in conjunction with the government. We then estimated known business rates avoidance at £230 million per annum. Much of this relates to abuse of the rules governing empty property and charitable relief. The LGA has also heard of examples of where small business rates relief is claimed through the artificial splitting of larger hereditaments into units which have a rateable value which comes below the threshold for 100 per cent small business rates relief.

4.14. The Welsh Government has announced that it will introduce measures to tackle wider forms of business rates avoidance from April 2021, including new obligations on ratepayers to notify their local authority of a change in circumstances which would affect their rates bills, a new legal power for local authorities to request information from ratepayers and third parties to aid authorities in discharging the billing and collection function, changes to empty property relief to increase the including lengthening the period of temporary occupation, which leads to repeated cycles of relief, from 42 days to six months and removing zero-rating on empty properties that when next in use it appears they may be used for a charitable purpose. We look forward to seeing the Government bringing forward similar measures in England to come into effect alongside the proposals in Wales.

Other income

4.15. Local authorities receive over £12 billion annually from a variety of sales, fees and charges. Many of these are set by statute and do not recover costs. An example of this is planning fees. While the number of planning applications has increased since 2010, the funding available for
this service has been cut in half. Evidence suggests that councils have used an initial 20 per cent planning fees increase to invest in new planners to help developers build the home communities need, however they will still be in deficit by £700 million between 2017/18 to 2021/22.\textsuperscript{xxxiv} It is therefore critical that the Government provides more freedom for councils to set planning fees to at least recover their costs.

**Options for widening funding; other taxes**

4.16. As stated above, pressures on councils’ budgets mean that council tax and current plans for business rates retention alone will not be sufficient to sustainably fund the sector. Some form of additional funding will be needed. We await the publication of the Government’s Adult Social Care Green Paper. Our own green paper and the debate it gave rise to, has led the LGA to conclude that the Government must make the case for national tax rises or some form of social insurance- to secure the long-term future of adult social care services.\textsuperscript{xxxv xxxvi}

4.17. The Government should look at the case for other local taxes being developed by the LGA and individual councils, in particular a tourism levy as is already being consulted on in Scotland.\textsuperscript{xxxvii} This could take the form of a levy on hotel bills to account for the additional costs of visitors for local authorities. It would require primary legislation.

**Lessons from other jurisdictions**

4.18. The Government does recognise that placing unfunded new requirements on local authorities puts pressure on them either to increase locally raised income or reduce spending on existing activities. The New Burdens Doctrine sets out how the government would ensure that new requirements that increased local authorities’ spending or reduced their income did not lead to excessive council tax increases.\textsuperscript{xxxviii} The Doctrine commits the Government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.\textsuperscript{xxxix} It has been used to pay additional grants to local authorities for implementation of a number of changes, for example the introduction of free early years education and certain changes to business rates reliefs. However it does not cover all of additional spending pressures. Crucially, decisions in Spending Reviews are not subject to the Doctrine.

4.19. Denmark has a well-established model where Danish Local Government negotiates with the Government on the funding which is required for New Burdens. This has a wider coverage than the Doctrine and the Committee is recommended to study it in further depth.\textsuperscript{xl} Another idea practiced in other countries such as Germany is that of assigned funding. One way in which this could be carried out would be for each local area to be assigned a proportion of the shares of national taxes collected such as income tax and stamp duty, along with appropriate redistribution arrangements and control over discounts and
reductions. It would be for local politicians to decide in partnership with local providers how to allocate this money.xli

5. How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

5.1. Both the Government and local government do carry out funding assessments for Spending Reviews. Different Spending Reviews cover different periods; there has not been a Comprehensive Spending Review since 2007. Although the advice given to ministers for the Spending Reviews in 2010, 2014 and 2015 has not been shared with the LGA, pressures, as outlined above, have clearly increased so this could not have been an adequate assessment of needs. The Government’s own planning for the Spending Review has been criticised by the Public Accounts Committee, which has criticised it for not publishing its assessment for the 2015 Spending Review, citing that this was confidential advice given to ministers.xlii

5.2. The LGA regularly publishes its funding assessments. The most recent one predicts an £8 billion funding gap in 2024/25.xliii

5.3. The relative funding needs of local authorities are currently being reassessed through the Government’s review of relative needs and resources (‘Review’).

5.4. The current system of funding distribution is opaque, overly complex and out of date, with some parts of the underpinning assessment (like the adult social care relative needs formulas) not reviewed for nearly 15 years.

5.5. In order to ensure the results of the Review are as credible as possible, it is crucial that the Government is transparent and provides sufficient evidence behind its decisions. We recognise the attempts made to do this as part of the consultation document, but this needs to go further.

5.6. It is important to recognise that there will be decisions made on the basis of Ministerial judgement which will have a significant impact on the outcome of the review. We would call for the use of this to be kept to a minimum with a clear evidence base for decisions where this is feasible. For example, while there are some ways to link this to evidence, ultimately how the relative needs assessment is split into different service areas with the use of ‘control totals’ will largely be a political decision for the Government and it will affect different councils, and council tiers, differently. It is important that the Government is transparent about which decisions have been arrived at with the use of Ministerial judgement so that there is appropriate accountability for those decisions.

5.7. Above all, we are clear that the outcome of the Review will not be sustainable unless it is delivered together with sufficient additional
funding. Regardless of how funding is distributed, it is simply insufficient to ensure sustainable delivery of council services. As a result, we do not agree that the Review should be taking place in a revenue neutral manner; the Government must provide sufficient additional resource as part of the 2019 Spending Review to meet the local authority funding gap in full.

5.8. We continue to work closely with the Ministry for Housing, Communities and Local Government on the Review to ensure that the Review is objective and transparent and that there is extensive engagement with local government. This joint working, and the fact that all papers of the technical working group have been made publicly available, is welcome and we intend to continue this approach.

6. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

6.1. The LGA has recently written to the Chancellor of the Exchequer outlining the urgent need to invest in local services at the 2019 Spending Review.

6.2. We will be proactively engaging with HM Treasury, MHCLG and other relevant government departments to make the case for local authority funding. Our work will consider a number of points which include, but are not limited to:

6.2.1. The financial sustainability of local government, and the funding gap facing vital local services, including funding of new burdens;

6.2.2. Specific pressures facing various local services and demographics, for example children with special educational needs and disabilities (SEND), social care more widely, homelessness and the knock-on impact on ‘universal’ services such as highways maintenance, waste and recycling, parks, leisure and culture;

6.2.3. The impact of other government policies and reforms on local government, for example the Resources and Waste Strategy, housing and welfare reforms;

6.2.4. Efficiency and transformation;

6.2.5. Capital spending and financing, including the work of councils on managing the public estate;

6.2.6. Other freedoms and flexibilities to attract investment into local communities and economic growth. This includes flexibilities around local taxation to empower communities to take more decisions with a direct impact on their area;

6.2.7. How local government can play its part in the delivery of wider national priorities, such as dealing with the impact of Brexit,
employment growth, provision of skills training, infrastructure development and the upcoming adult social care green paper.

6.3. We are also working closely with MHCLG on a joint MHCLG/LGA series of themed Spending Review roundtables, bringing together senior officials from various Departments and senior local authority officers to discuss issues and evidence to help the Government build the case for local services as part of the Spending Review.

6.4. One of the main challenges for the Government in Spending Reviews is that the funding for local government, as well as the impact local services have on national policy goals, is not possible to be confined within one spending line or a single, limited assessment, like a Government department would be.

6.5. In addition, having a ‘local government departmental expenditure limit’ (LG DEL) in the context of all core government funding being phased out and replaced with business rates retention means that LG DEL as a concept is increasingly meaningless.

6.6. Already in 2019/20 it is worth less than £6 billion because all funding sourced from local taxation (all of council tax and 50 per cent retained rates) is scored as ‘annually managed expenditure’ (AME) and thus out of central government control.

6.7. In fact, the continued presence of an LG DEL line in the Spending Review would mean that the Government still intends to control council spending from sources which are presented as completely assigned locally.

6.8. An alternative approach to assessing local government funding could bring together all remaining government funding to councils into a single assessment as part of the Spending Review, showing the funding flowing to local government from each Government department, its 2019/20 baseline, and how it changes, plus the AME funding from local taxation.

6.9. This would not be an LG DEL line (as the funding streams remain within Department DELs), but a memorandum item. Conceptually it would be similar to an expanded core spending power measure, but not broken down at local level and with no assumption on discretionary choices like council tax level changes during the SR period.

6.10. This would allow HM Treasury, councils, other stakeholders and Government departments themselves to develop a better understanding of how their funding interacts with policy decisions coming from other departments. It would also allow for more meaningful parliamentary scrutiny of how local government is funded, and what outcomes are being sought and achieved as a result, achieving more value for money spent by central government.

April 2019
LGA analysis

PAC (2019) Local Government Spending

LGA Funding gap analysis


LGA funding gap analysis

Local Government Association (2018) Moving the Conversation on

Local Government Association. (2018) LGA launches own green paper as adult social care reaches breaking point


Ministry of Housing, Communities & Local Government. (2018) Live tables on 19 planning application statistics. Table P120: district planning authorities - planning applications received, decided, granted, performance agreements and speed of decisions, England (time series - quarterly and financial years’ data).

Local Government Association (2018) Polling on resident satisfaction with councils

LGA unpublished research

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Between 2010 and 2017 the headline rate of nationally negotiated pay awards reduced local government salaries by 13.6 per cent in real terms. See National Joint Council. (2018) Pay awards reached by the National Joint Council for local government services. (Data adjusted by CPI inflation using calculator provided by Bank of England)

The number of people directly employed by local government has fallen by 878,000 over the last 10 years (30 per cent of the council workforce) whilst central government staffing has increased by 15 per cent. See Office for National Statistics. (2018) Statistical bulletin: Public sector employment, UK: June 2018

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This figure is a scaled net position which was arrived at by applying the population scalar (from population size of survey respondents to total population size) to the net position of those councils who responded to the survey. See Local Government Association/ISoS Have we reached a 'tipping point'? Trends in spending for children and young people with SEND in England

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