

# LOCAL GOVERNMENT HEALTH CHECK

2. Council Finance: Facing the Brink

# **A FINANCE SETTLEMENT THAT LIVED UP TO LOW EXPECTATIONS**

- NO NEW MONEY FOR PUBLIC SERVICES ANNOUNCED IN THE LOCAL GOVERNMENT FINANCE SETTLEMENT.
- OUR PUBLIC SERVICES FACE A £5.8 BILLION FUNDING GAP BY 2019/20 AND AN ADDITIONAL £1.3 BILLION IS NEEDED FOR ADULT SOCIAL CARE. THE PROPOSED 1% ON COUNCIL TAX COMES NOWHERE CLOSE TO MEETING THIS GAP.
- NEW ANALYSIS SHOWS THAT 1% ON COUNCIL TAX WILL ONLY RAISE £219 MILLION ACROSS ENGLAND
- GRANT FUNDING IS THE LOWEST IT HAS BEEN FOR DECADES AND AFTER MARCH 2020 THE SECTOR HAS NO CLARITY OVER THE LEVELS OF FUNDING THAT WILL BE DELIVERED.
- LOCAL GOVERNMENT FUNDING HAS SEEN NO INCREASE IN FUNDING TO REFLECT THE THE SIGNIFICANT ADDITIONAL COST OF MEETING NATIONAL LIVING WAGE REQUIREMENTS. WORKERS DESERVE A FAIR WAGE, AND THIS NEEDS TO BE FUNDED BY CENTRAL GOVERNMENT.
- THE GOVERNMENT NEEDS TO PROVIDE NEW FUNDING FOR ALL COUNCILS OVER THE COMING YEARS SO THEY CAN PROTECT VITAL LOCAL SERVICES FROM FURTHER CUTBACKS.

## THE MONEY THAT LOCAL GOVERNMENT HAS TO ENSURE THAT OUR PUBLIC SERVICES CONTINUE TO OPERATE IS RUNNING OUT FAST.

In just two years, the funding gap is expected to grow to £5.8 billion<sup>1</sup>.

In 2016, the Government announced that by the end of this decade, councils will be funded from revenues they raise locally, rather than central government grants. In order to support medium-term financial and workforce strategies during this transition, the Government offered a 4-year financial settlement. It was also stated that the new burdens doctrine would operate outside of this deal.

The settlement claimed to offer a degree of certainty for councils, and those who failed to sign up to the deal were warned by DCLG that if additional savings were required, these authorities would bear the reductions first.

97% of councils accepted the settlement<sup>2</sup>.

On 17th December last year, in the third year of the four year deal - the Government published its long awaited outline for funding local government for 2018-19.

After the Autumn Budget failed to recognise the funding crisis facing

children's services and adult social care, the sector looked to the Local Government Finance Settlement for some assurances that the Government recognised the crisis facing these essential public services.

At Communities and Local Government Questions on 4th December, Andrew Gwynne asked Sajid Javid how the Government plans to respond to sector's call for £2bn to plug the immediate shortfall in children's services funding. Javid replied, "[he] will know that the local government finance settlement is coming along shortly, and he can look to see what happens with that."<sup>3</sup>

*"it is simply not true that the government cannot find or afford the money needed to invest in the care and protection of children – it has simply chosen not to."*

- Children England

Despite this, there were no new announcements and no new funding.

The LGA responded: *"It is time for the Government to give councils the resources they need to provide the support that vulnerable children and families need, when they need it."*

Children England said: *"it is simply not true that the Government cannot find or afford the money needed to invest in the care and protection of children – it has simply chosen not to. That choice is an act of wilful neglect of the nation's most vulnerable children."*<sup>4</sup>

## A GOVERNMENT ONLY PREPARED TO PASS THE BUCK

Rather than providing new money, the Government has passed the buck for funding our public services onto already struggling households, and local authorities who resist will be blamed by the Government for their failure to draw on all available funding options.

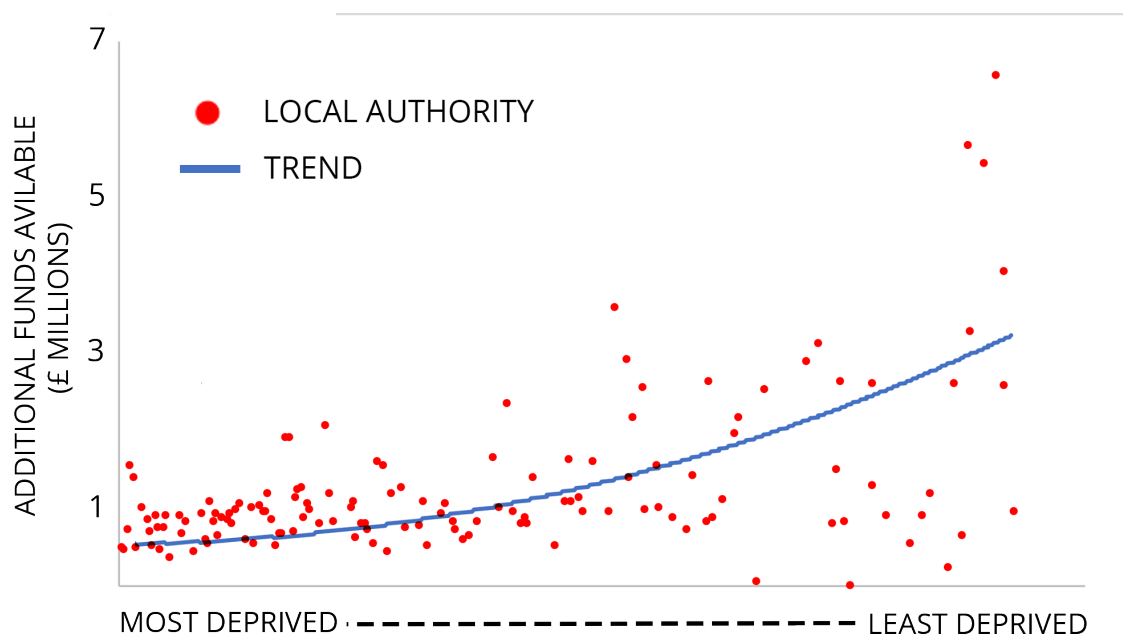
Despite no new money appearing in the settlement, the Government has increased the general council tax referendum limit by 1 per cent (from 1.99 per cent to 2.99 per cent). Assuming that all councils raise their council tax by this new maximum amount, Government figures indicate that Core Spending Power in accordance with this definition will rise by an average 1.5% in 2018/19.

However even then, this does not raise sufficient funds. **Independent House of Commons research commissioned by the Labour Party has suggested that the move will**

**raise only £219 million next year** - hardly touching the £2bn shortfall in children's services, the £600 million cost to councils of paying for the Government's National Living Wage next year, let alone the growing funding gap.

Relying on council tax as a funding mechanism has the danger of reproducing and amplifying regional inequalities. Authorities with the greatest need, and often those with a weaker tax base will be unable to raise as much income through this flexibility than those authorities with a stronger tax base. The Nuffield Trust analysed the impact of the social care precept finding that in 2016, local councils in the ten most affluent places in England were able to raise almost 50% more per head of local population than those covering the ten least well-off areas<sup>5</sup>.

The chart below shows Indices of Multiple Deprivation rank for each authority plotted against the potential £ raised through the proposed 1% increase in council tax.



## **NEW BURDENS FACED BY LOCAL GOVERNMENT ARE BEING OVERLOOKED**

The £219 million raised through this council tax increase is nowhere near enough to meet the funding gap estimated by the LGA to hit £5.8 billion in 2019/20.

Local government funding allocations have also not been increased to reflect new burdens placed on local authorities on pay, in particular the significant cost of meeting the National Living Wage requirements. Workers in Local Government are the lowest paid group of public sector workers – having undergone a 22% cut in basic pay since 2010. On top of that, many have had their pay-related conditions cut, reducing their earnings further. 78% of them are women and many are struggling to survive, along with their children and families.<sup>6</sup>

The National Joint Council recently made a pay offer to workers of 2% in 2018 and in 2019<sup>7</sup>, as well as bottom-loading to ensure that the lowest pay point is aligned with the National Living Wage. The cost of the offer to local government is £623 million and research from the New Policy Institute has shown that almost 50% of the cost of the offer will be recouped by central government in the form of increased tax and National insurance take with reduced expenditure on in-work benefits.

It was hoped that this expense would be funded within the local government finance settlement, but it was not

referenced.

With the four-year deal ending in May 2020, councils will see their core funding from central government cut in half over the next two years and almost phased out completely. After this date, there is no clarity over funding levels, for both the national pot and local allocations. This hampers financial planning at a time when government grant funding is decreasing to the lowest point in decades.

Unlike central government, local authorities cannot borrow money over the medium-term, except for investment in assets. Instead, Local authorities hold reserves in order to help cushion the impact of uneven cash flows, the impact of unexpected event or emergencies, and to meet known or predicted requirements through earmarked reserves.

In 2015-16 and 2016-17, English local authorities drew down from their stock of reserves by £0.4 and £1.5 billion respectively<sup>8</sup>. Analysis of the use of general fund reserves by individual authorities shows that the level of reserves of almost half of all local authorities reduced during 2016-17, with all authority types that deliver social care seeing a decrease in their reserves: Unitary Authorities (-£254 million), London Boroughs (-£359 million), Shire Counties (-£378 million) and Metropolitan Districts (-£388 million).

## KEY DEMANDS

- The use of reserves is a one-off solution that merely buys time. It does not address the systemic underfunding that local government is facing, and it is not sustainable. The Government needs to provide new funding for all councils over the next few years so they can protect vital local services from further cutbacks.
- The Government needs to provide new funding for all councils in the final settlement. The four year deal runs out in 2020, and the Government must provide clarity on how local government will be funded after this date.
- The Government has acknowledged the need to help councils who will no longer receive RSG after 2020, it must use the final finance settlement to lay out how it will do this.
- Council tax rises will not fix the local government funding crisis. The current offer does not address the funding gap, and the scale of demand for vital care services means that councils will continue to face very difficult decisions.
- Local Government Finance Settlement needs to be provided earlier in the year. This would support councils to make robust and efficient medium term plans.
- Local Government needs leadership and a Government able to offer a strategic vision for the sector. The sector is being held back not only by a lack of funding, but through a lack of stability and financial security to allow them to make medium and long-term investments. The sector needs a Government that is not only able to lay out a vision for what the sector will look like next year, but what it will look like in 10 years time.

## References

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2. Press release: Government sets out further measures to support councils to deliver services <https://www.gov.uk/government/news/government-sets-out-further-measures-to-support-councils-to-deliver-services>
3. Hansard Online, 04 December 2017: <https://hansard.parliament.uk/Commons/2017-12-04/debates/8D139D69-2992-44C9-BC08-23D1C7F4B7A4/CommunitiesAndLocalGovernment>
4. Children England, the Local Government Finance Settlement ignoring vulnerable children is an act of wilful neglect <https://www.childrenengland.org.uk/news/the-local-government-finance-settlement-ignoring-vulnerable-children-is-an-act-of-wilful-neglect>
5. Joint paper from Nuffield Trust, Health Foundation and The King's Fund: <http://www.health.org.uk/sites/health/files/SocialCareFundingGap.pdf>
6. Joint letter from Unite, Unison and GMB prior to the Local Government Finance Bill: [https://www.unison.org.uk/content/uploads/2017/12/LGpay17\\_letter\\_11Dec.pdf](https://www.unison.org.uk/content/uploads/2017/12/LGpay17_letter_11Dec.pdf)
7. LGC, Tories 'attempted to block' 2% pay offer: <https://www.lgcplus.com/politics-and-policy/workforce/exclusive-tories-attempted-to-block-2-pay-offer/7022408.article>
8. OBR, Local authorities' use of reserves <http://obr.uk/box/local-authorities-use-of-reserves/>

## Appendix

2017/18 Council Tax Requirements And Projected Percentage Increases: <https://docs.google.com/spreadsheets/d/1Z5EofeZ4qg8EFo-kxazceAisFv0S7O54SOHMYWKxl7Q/edit?usp=sharing>  
Regional breakdown of Council Tax Projected Increases: <https://docs.google.com/spreadsheets/d/1Z5EofeZ4qg8EFo-kxazceAisFv0S7O54SOHMYWKxl7Q/edit?usp=sharing>

**Produced by the Shadow Communities and Local Government Team**



Andrew Gwynne MP  
Shadow Secretary of State for Communities and Local Government



Jim McMahon OBE MP  
Shadow Minister for  
Devolution and Local  
Government



Roberta Blackman-Woods MP  
Shadow Minister for Planning



Yvonne Fovargue MP  
Shadow Minister for  
Communities and Local  
Government



Lord Jeremy Beecham  
Labour's CLG Spokesperson  
in the House of Lords



Lord Roy Kennedy  
Labour's CLG Spokesperson in  
the House of Lords



Stephen Morgan MP  
Parliamentary Private Secretary to Andrew Gwynne MP



For more information contact: [greg.dash@parliament.uk](mailto:greg.dash@parliament.uk)