



Government response to the Housing,
Communities and Local Government
Select Committee report 'Local Government
Finance and the 2019 Spending Review'



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Presented to Parliament
by the Secretary of State for
Housing, Communities and Local Government
by Command of Her Majesty

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Introduction

1. The Housing, Communities and Local Government Select Committee published their report on Local Government Finance and the 2019 Spending Review on 21st August 2019.
2. The Government thanks the committee for its inquiry and its work undertaken to gather evidence around the Local Government Finance system.

Background

3. The Government recognises that local government plays a vital role in delivering essential public services to local communities right across the country.
4. This is why the recent Spending Round responded to the pressures councils are facing by providing access to the largest year-on-year increase in spending power in almost a decade. Core Spending Power is expected to rise from £46.2 billion in 2019-20 to £49.1 billion in 2020-21, an estimated 4.3% real terms increase.
5. We recognise the need to ensure the long-term financial sustainability of local government, and that is why we are progressing reforms to develop a simpler, more up-to-date, evidence-based funding formula for Local Government and increase the amount of business rates growth which local authorities retain, with the aim to implement the changes from 2021-22.
6. We also recognise that Local Government is under increasing pressure because of the rising demands of social care, and this is why, in the short term, we have made an extra £1.5 billion of resources available in 2020-21 including £1 billion of dedicated grant funding across adults' and children's social care and a proposed 2% adult social care precept. In the longer-term, we have committed to a clear plan to fix adult social care and give vulnerable people the dignity and security they deserve.

Recommendation 1

We welcome the Government's decision to undertake a review of local government audit. The review should, among other issues, consider how auditors can be more effectively used to highlight risks to financial sustainability, operational performance and value for money of local authorities.

7. The independent review of local authority financial reporting and external audit is being led by the former President of the Chartered Institute of Public Finance, Sir Tony Redmond. Its objectives, as set out in the terms of reference, include making recommendations on how far the statutory audit process, products and supporting regulatory framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.
8. Any change to the role of auditors would be for the independent review to set out in those recommendations. A copy of the MHCLG Select Committee report has been sent to Sir Tony Redmond for him to consider as part of his review.
9. Whilst we would not propose recreating an oversight body at the scale and expense of the Audit Commission, we look forward to receiving the response from the Redmond review and taking the opportunity to further strengthen the accountability and assurance frameworks already in place for local government.

Recommendation 2

The Government should develop a more regularised and consistent approach to the collection and monitoring of comparative data about councils' performance, efficiency and financial sustainability. The current situation means there can be no certainty about the state of individual councils or the sector as a whole.

Recommendation 10

MHCLG, working with HM Treasury and other departments, should clearly set out what tasks are expected of local government and how much funding it requires. It should draw upon the work of academics and other experts, such as the National Audit Office.

10. Local authorities are independent of central Government, accountable directly to their own electorates. Government policy is not to performance manage individual councils; within the framework of statutory duties, councillors are free to set their own priorities and determine outcomes, including directing the appropriate level of spend. Councils are already required to submit data covering a range of service areas to central Government - these are set out in the Single Data List¹. The Prime Minister has reaffirmed that one of his top domestic priorities will be to give more powers to local leaders. This includes giving more communities greater say over changes to transport, housing, public services and infrastructure that will benefit their areas and drive local growth.
11. CIPFA publishes a range of benchmarking financial and service data on local government, including its recent work on a resilience index. This will allow a better shared understanding of the key financial indicators which may support judgement on financial sustainability in individual local authorities. The LGA publishes performance data on its LGInform platform and has also launched the Transformation and Innovation Exchange - a tool that allows councils to bring together practical help for local government about innovation and efficiency into one place. Both LGInform and the Exchange are supported by MHCLG, which supplies a £19 million support grant to the LGA. Last year, MHCLG launched the Local Digital Declaration², which set out a shared ambition between central and local government to design services that better meet the needs of citizens. This was supported by the Local Digital Fund³ - which delivered 16 projects in its first round. A second round of projects was announced in September 2019.
12. For specific services, other departments that rely on local authorities to deliver policy objectives are responsible for taking the steps they consider necessary to maintain an overview of performance. This could include formal inspection, for example Ofsted or the Care Quality Commission in relation to Children's and Adults' Social Care respectively. Where a department identifies that service levels are inadequate, it is responsible for taking the steps necessary to address this. In the event of significant concerns with service areas, MHCLG will be in close contact with the responsible department, in particular to determine whether the impacts on services are evidence of wider issues with leadership or governance within the council, which could require further intervention.
13. Whilst it is for councils to take primary responsibility for understanding and improving their own performance, MHCLG is committed to working closely with sector bodies to improve the collection and dissemination of comparative data about local authorities. This includes working with the Local Government Association (LGA) and the Chartered Institute of Public Finance & Accountancy (CIPFA), to ensure the existing tools and mechanisms used for monitoring performance meet the needs of local government.

1 <https://www.gov.uk/government/publications/single-data-list>

2 <https://localdigital.gov.uk/declaration/>

3 <https://localdigital.gov.uk/funded-projects-local-digital-fund-round-one/>

14. MHCLG retains oversight of the state of individual councils and the sector as a whole. The Department's assessment of financial sustainability is based on a comprehensive understanding of the sector's capacity to deliver services required. The Department assesses this both top-down, looking at a macro level to see how much funding is in the system as a whole when set against cost drivers, demographics and opportunities for efficiencies; and bottom-up by looking at financial indicators, overall capacity, leadership and governance for individual authorities.
15. As part of this assessment, and in preparation for Spending Reviews, MHCLG provides a coordinating role across Whitehall, bringing together analysis by individual Departments on a common basis to understand the overall financial position of local authorities and future spending pressures. This was the case with the recent Spending Round, which secured an increase in Core Spending Power of £2.9bn in 2020-21.
16. In the longer-term, MHCLG is also seeking to enhance oversight of the governance system through the new Local Authority Governance and Accountability Framework Review Panel, which importantly is comprised of sector representatives that own elements of the Framework. This includes the LGA, CIPFA, NAO, Centre for Public Scrutiny, SOLACE and the Local Government and Social Care Ombudsman. Its work programme and minutes of the first meeting will be published in due course.

Recommendation 3

Our recent report on adult social care highlighted the need for increased funding. We reiterate the recommendations we previously made - there is need for new revenue resources both at a local and national level. Local government must be given additional central government funding or powers to raise more revenue to deal with growing demand.

17. The Government agrees with this recommendation and recognises the vital role that social care plays in supporting the most vulnerable people in society.
18. The 2019 SR settlement provides access to £1.5bn of additional funding for social care next year. This includes an additional £1 billion grant for adults' and children's social care, on top of the continuation of existing social care grants. We also propose a 2% Adult Social Care council tax precept that will enable councils to access a further estimated £0.5bn.
19. This new funding will support local authorities to meet rising demand and help to stabilise the system until we implement fundamental reforms to put adult social care on a more fair and sustainable footing.

Recommendation 4

Ideally local authorities would already know their level of funding for 2020–21 to allow them to effectively plan for the coming year. We recommend that MHCLG and HM Treasury provide a multi-year settlement for local government which runs for one year beyond the Spending Review period - the same approach that is currently used for Departmental capital budgets. In the short-term the Government should provide assurance on 2020–21 funding as soon as possible - for example by stating that no council will receive less in real terms spending power in 2020–21 than they did in 2019–20. Such a commitment should apply to services not covered by any ring-fenced resources for adult social care.

20. We recognise that certainty supports local authorities' financial planning and service. This is why we agreed a four-year funding offer with the sector as part of the current Spending Review period, from 2016-17 to 2019-20.

21. In the short term, we have given local authorities early certainty about 2020-21 funding through the Spending Round announcement. This sets out our commitment to protect vital front-line services by increasing elements of core settlement funding in line with inflation; maintaining key local government grants, including all social care grants, at 2019-20 levels; and injecting significant new funding into social care. Further details have been set out in a technical consultation, published 3rd October 2019, and enables councils to plan budgets.
22. Ministers agreed with the recommendations of the 2018 Hudson Review of Local Government Finance governance and processes⁴, which set out a timeline for the settlement that gives local authorities the certainty they need to plan their budgets effectively.
23. For the full Spending Review next year, we are aiming to make a multi-year offer. This will strike a balance between providing medium-term certainty for local authorities while retaining the flexibility to reallocate resources in response to shifting pressures.

Recommendation 5

It would be better to adequately and sustainably fund councils and to rely less on one-off pots of cash. If necessary, any additional funding should be distributed as quickly and efficiently as possible with any bidding process kept to a minimum.

24. We agree with the committee that providing councils with the freedom to use funding in a way that responds to local needs and priorities is key to ensuring financial sustainability and sound financial management.
25. Next year, Local Government will receive the largest year-on-year increase in spending power in almost a decade, with Core Spending Power rising by an estimated 4.3% in real terms to around £49.1bn. The majority of core spending power is unringfenced, to allow local authorities the freedom and flexibility to prioritise spending according to local needs.
26. However, there are times when dedicated funding streams are the most appropriate way to support the Government's objectives, including: specific funding initiatives, trials or pilots. In such circumstances, Ministers will look to maximise value for money by considering the timing, value and conditions attached to any funding.
27. The Department has agreed with the recommendation made by the Public Accounts Committee that greater evidence to understand the impact of one-off, immediate funding streams, in consideration with current grant reporting, will be helpful in structuring future support to the sector. Therefore, MHCLG is working with DHSC to commission a targeted piece of research into local authorities' use of recent social care grants. The current proposal is to undertake qualitative research amongst a sample of local authorities to understand the implications of the format of funding on the ability of councils to plan and use resource effectively. We would expect that the findings from this work would be available in late spring 2020. We look forward to sharing further details in due course.

Recommendation 6

MHCLG needs to reform and make substantial changes to the business rate retention system. The Government should consider making the system simpler by bringing back the Revenue Support Grant to redistribute to councils in need rather than trying to do this through an increasingly complex business rates retention system. The Government also needs to start considering alternatives to business rates as a revenue stream for local government, given the risks to this tax over the long-term.

⁴ <https://www.gov.uk/government/publications/local-government-finance-review-of-governance-and-processes>

28. The Government is committed to increasing business rates retention to 75% by rolling in grants of equivalent value, giving local authorities greater control over spending tax revenue that is raised locally (which the committee welcomed), and ensuring that they have powerful incentives to grow and reinvest in their local economies.
29. We recognise that the system is complex. This reflects the need to balance the redistribution of resources to meet Local Authorities' funding needs while also incentivising economic growth. However, within these constraints, we are committed to making the system simpler, in line with the recommendations of the Hudson review. Whilst looking to increase the proportion of business rates revenue that is retained locally, we are therefore looking to reduce the fiscal risk from backdated appeals and valuation changes.
30. Potential changes to the overall system of business rates is an important consideration in designing the wider reforms. However, we believe that business rates retention continues to be a viable source of valuable and flexible funding for Local Authorities, and one that will continue to support them to meet their specific local needs.

Recommendation 7

As part of a review of council tax, the Government should consider the case for creating new council tax bands at the top and bottom of the scale. We will return to this in our progress on devolution in England inquiry.

Recommendation 8

A revaluation for council tax purposes is long overdue. The Government should hold a review into how a revaluation could be implemented without dramatic increases for individual households. Any revaluation should be revenue neutral at the national level. Revaluation also does not mean that significant changes in council tax must be put in place immediately, it could be phased in over time. We recognise there will be effects on individual authorities and adjustments to the equalisation system will be needed to deal with this. Under any revaluation the bands will need to be adjusted to reflect changes in property prices over time.

31. The Government has no plans to undertake a review of council tax. Council tax provides a well understood, stable and predictable mechanism for raising funds for local authorities to deliver local services. The introduction of additional higher bands would also risk penalising people on low incomes, including pensioners, who have seen their homes appreciate in value.
32. Introducing new council tax bands at the upper and lower ends would require a revaluation to ensure that all properties were banded appropriately. Revaluation would be expensive to undertake and could result in increases in bills for many households. Phasing changes would simply postpone the reality of increases in bills for many households, while also possibly creating interim costs for local or central government.

Recommendation 9

The Minister for Local Government told us that MHCLG produces figures on the spending inflation levels of different local government services. It should publish past assessments (from 2015 onwards) on service cost inflation. It should also publish these figures and an average 'local government inflation' figure alongside other documents relating to the annual local government finance settlement each year. This will allow parliament and the public to assess whether councils are receiving real terms increases in their spending power or not. The Office for Budget Responsibility could have a role in overseeing the quality of such a process.

33. Further detail about the assessments undertaken by the Department, which inform fiscal events such as Spending Reviews, are set out in the answer to recommendations 2 and 10 above. These assessments are undertaken in the context of providing advice to ministers as part of the policy making process.

34. As noted by the Department in its response to the Public Accounts Committee (published April 2019), MHCLG has agreed to publish data in relation to projections of demand and spending, in discussion with other departments, six months after the conclusion of the Spending Round. Population and inflation projections will account for a significant proportion of future service demand and cost increases; much of this data is already publicly available.

Recommendation 11

If HM Treasury wants local government to continue providing the services it currently does it needs to provide local government with a significant real-terms increase in its spending power. To restore local government expenditure to the position it was, as a share of GDP, in 2000–01 would require an increase of around £4 billion—that is before taking into account the increased demands for services such as adult social care and children’s services over the last twenty years.

Recommendation 13

Councils need to be told as soon as possible what their new funding levels are for 2020–21. Delay is unreasonable and risks unnecessary reductions to spending in 2020–21.

35. We have now given local authorities more certainty about 2020-21 funding through the Spending Round, which has delivered a significant real-terms increase in Core Spending Power in 2020-21 of £2.9 billion, an estimated increase of 4.3%. This is the largest year-on-year increase in spending power in almost a decade. This will help to support local authorities to meet rising demand and recognises the vital role that social care plays in supporting the most vulnerable people in society.

36. It includes an additional £1 billion of grant funding for adults’ and children’s social care services, on top of the continuation of £2.5 billion of existing social care grants. We have also confirmed that core settlement funding (baseline funding and revenue support grant) will be updated in-line with inflation.

37. As part of the increase, we are also consulting on the continuation of the Adult Social Care precept at an additional 2%, which would enable councils to access an extra £0.5bn for Adult Social Care, and a 2% general increase in Council Tax without holding a referendum. Together, these will give councils access to an additional estimated £1.6 billion from Council Tax.

38. Outside of the main Local Government Finance Settlement, local government will also see increases from wider resources made available this Spending Round. High Needs funding for schools and colleges will increase by over £700m. The Public Health Grant will increase in real terms and the Department of Health and Social Care’s contribution to the Better Care Fund will grow in line with the additional investment in the NHS.

39. Further certainty has been provided in our proposals in the technical consultation published on 3rd October 2019. This document sets out our offer for 2020-21 in more detail and will enable councils to start planning budgets for next year.

40. We have also agreed with the recommended timeline for the provisional and final settlement set out in the 2018 Hudson Review of local government finance governance and processes.

41. Longer term funding decisions will be taken in next year's spending review and we will continue to work with councils in the run-up to that event.

Recommendation 12

The workings of any new formula should be as transparent and understandable as possible. The formula should also be tested to ensure that any arbitrary and unjustified results are minimised.

42. We are making good progress on developing a simpler, more up-to-date, evidence-based funding system for local government. We have worked closely with local government representatives to consider the drivers of local authorities' costs, the resources available to them to fund services, and how to account for these in a way that draws a more transparent and understandable link between local circumstances and local authority funding.
43. Our engagement with the sector has demonstrated that there is support for a simpler and more transparent approach, which does not compromise the accuracy of the needs assessment. The approach set out in our December 2018 consultation struck a balance between these objectives by reducing the number of individual formulas and focussing on the most important cost drivers.
44. Once new funding baselines have been established, we will consider appropriate transitional arrangements that will determine the basis on which authorities reach their new funding allocations to prevent any undue year-on-year changes in funding.
45. Our December 2018 consultation proposed a set of principles that will be used to design potential transitional arrangements and examined how the baseline for the purposes of transition should be established. We will continue our work with local government to inform final decisions about the shape of the review and to sense check our approach, including the feasibility of publishing early indicative allocations and the design of transitional arrangements.
46. Our aim is to implement the review at the earliest possible opportunity. In order to provide the sector with the certainty they need to plan for next year, our aim is to implement the review in 2021-22. This timing will enable us to align our plans with future fiscal events.

Recommendation 14

MHCLG and the Department for Work and Pensions should consider creating a pilot scheme to see whether allowing local government employees to take more of a role in the benefits system would make the system more efficient and provide a better service for the public.

47. Local Jobcentres already work alongside local organisations, including Local Authorities, to help meet the needs of their communities and claimants.
48. DWP ensure that people struggling with accommodation can get extra support in Universal Credit; for example helping individuals to overcome the need for a registered address, tailoring work requirements so they can sort out their housing, and helping with critical issues such as access to money for those who do not have a bank account.
49. Universal Credit also provides personalised support for all claimants, including those with a disability or health condition, through personal work coaches. DWP's Work Coaches receive extensive training to ensure they can offer effective support and can tailor their approach to best support claimants.

50. In addition, Local Authorities are best placed to decide how to target flexible help to support local welfare needs.

51. Government passed funding over for Local Welfare Assistance to local authorities and devolved administrations from April 2013, giving them maximum flexibility to deliver services as they see fit according to local needs.

52. Government will continue to explore ways to improve the service.

