



## **Written evidence to Housing, Communities and Local Government Committee: Inquiry into the Spending Review and Local Government Finance**

This submission is based on the views of Solace's Policy Board, which consists of 26 serving local authority chief executives and senior managers. Solace is the representative body for more than 1,600 chief executives and senior managers working in the public sector in the UK, committed to promoting public sector excellence.

We have set out below evidence in relation to each of the four themes the Committee seeks to explore, in an order which reflects where we feel our contribution will add most value. The key points to note are:

- The financial challenges facing councils as result of Covid-19 are ramping up considerably – a recent Solace survey of council chief executives in England found the average funding gap for this financial year has quadrupled to more than £16m per local authority since the start of the pandemic, with almost a fifth (19%) predicting their council will need to issue a Section 114 notice by the end of 2021-22 (**see section 1 for more details**).
- While we urge the Government to use this Spending Review to provide councils with a truly sustainable multi-year settlement, our number one ask of Government is early certainty over funding for the rest of 2020-21 and 2021-22.
- Looking beyond the short-term, Solace is calling on the Government to create a £100bn endowment fund – matching the quantum it has committed to invest in physical infrastructure – to inject new funds across the country into social infrastructure, and help spark a fundamental shift towards investing in preventative measures which will deliver better outcomes, drive public sector reforms and save the country money in the long-run (**see section 2 for more details**).

We are happy to provide further oral or written evidence to the Committee and facilitate further engagement with senior officers at local authorities should that be useful for Committee members.

### **1. What the financial challenges facing councils are as a result of the COVID-19 pandemic, including lost income and local tax losses.**

- Councils have played a vital role in the response to the Coronavirus crisis and they are being increasingly expected to do even more, whether that be providing support for the shielded, housing the homeless, improving the effectiveness of the national Test & Trace system, or providing free school meals to children.
- Increased service delivery costs combined with major reductions in income from sales, fees and charges as result of the pandemic has severely exacerbated councils' pre-existing financial pressures (**see section 4 for more details**).
- A recent Solace survey of 132 chief executives of local authorities in England found:
  - 60% said their council was facing a funding gap before the pandemic, although this number rises to 71% for all top tier authorities.

Solace Business Partner



The Society of Local Authority Chief Executives and Senior Managers (Solace Group) Ltd; a company registered in England & Wales, number 04053417  
Registered charity number: 1084419  
Registered Office: Off Southgate, Pontefract, West Yorkshire WF8 1NT

Telephone: 0207 233 0081  
Email: [info@solace.org.uk](mailto:info@solace.org.uk)  
Website: [www.solace.org.uk](http://www.solace.org.uk)

- When broken down the average funding gap per top tier authority for this financial year pre-pandemic was £7m, with a combined total of almost half a billion (£495.7m).
  - The average estimated funding gap for districts this year was just over £620,000, with a combined total of about £28.5m.
- But now the average funding gap for this financial year for all council types has quadrupled to more than £16m per local authority since the start of the pandemic – and quadrupled to almost £2.1bn in total for the same period.
  - The average funding gap per top tier council for 2020-21 has more than trebled to £25.6m due increased costs and loss of income and the combined funding gap this year has almost quadrupled to £1.9bn among our respondents.
  - The average estimated funding gap for districts now has increased to £3.1m, while the combined total for those who responded to our survey has risen to more than £169m.
- Almost a fifth (19%) of all respondents predict their council will need to issue a section 114 notice by the end of 2021-22 if no further financial support from Government is forthcoming.
  - But when the results are broken down, more than a quarter (26%) of top tier CEX predict their council will need to issue a section 114 notice by the end of next year. A further 17% expect to do so by 2022-23.
  - Almost one in 10 (9%) respondents from districts predicted this for their authority by the end of 2021-22, followed by a further 15% the year after.
- Services are now expected to suffer in terms of quality and/or level of provision.
  - For top tier councils, the three service areas expected to suffer the most over the next year are: adult social care, roads and highways, and children’s social care.
  - For districts the services most likely to suffer in the next 12 months are: waste, street cleaning, and housing.
- Our survey was conducted in August and September – so before national restrictions were imposed. The financial outlook for many will have become even bleaker in the period since then.
- Despite Government support to help mitigate the impact of Covid-19 on councils, the latest analysis by the Institute for Fiscal Studies<sup>1</sup> estimates a £3bn funding gap for this year alone – up 55% from its prediction in August. And the IFS warned there is a strong chance that this gap will widen further.
- To date, Government support has been haphazard, last minute and, crucially, backward looking with packages based on the monthly financial returns from local authorities – but the support issued does not reflect the forecasted financial pressures.
  - One of our member chief executives, who represents a district council, told us that one of their three accountants is now working full time on uploading constant streams of data to the MHCLG.

<sup>1</sup> [COVID-19 and English council funding: what is the medium-term outlook?](#)

- Also, the money from Government often comes with strings attached and added bureaucracy. For example, councils were required to spend the £63m 'Emergency Assistance Grant' to help fund free school meals within 12 weeks (which took us to the beginning of October) – before half-term and the end of the furlough scheme.

## 2. The approach the Government should take to local government funding as part of the 2020 Spending Review and what the key features of that settlement should be.

- As we set out in our [Spending Review submission](#), this fiscal event is crucial for the short and long-term future of this country as it responds to, and recovers from, the Coronavirus crisis, and prepares for its future outside the European Union.
- Ensuring local government is sustainably funded will be vital if the country is to successfully overcome the many challenges presented by these events while also supporting the Government's ambition of levelling up the country, improving peoples' life chances, stimulating growth and unleashing Britain's potential.
  - However, the delivery of that agenda requires a robust public sector. We are concerned about reports of a potential further public sector pay freeze and the impact this will have, in both the short and long term, on the resilience of the staff and the services which are at the very heart of not just the pandemic response but the recovery from it too.
- While we urge the Government to use this Spending Review to provide councils with a truly sustainable multi-year settlement, our number one ask of Government is early certainty over funding for the rest of 2020-21 and 2021-22 to help reduce the cost of short-termism which leads to poor outcomes for public services and provides poor value for money<sup>2</sup>.
- Specifically, we call on the Government to, as a matter of urgency:
  - issue a statement of intent on the size of the spending envelope for 2021-22 so that the sector has the best possible chance of navigating what will continue to be an extremely challenging period for local places.
  - this envelope should be based on a 'status quo plus' approach, rolling over the 2020-21 settlement for local government with an uplift of at least 1% in real terms.
  - follow through on the Prime Minister's commitment to cover all Covid-related costs, including loss of income in relation to sales, fees, charges and business rates.
- The Government should also consider allowing councils to carry forward budget deficits (as the NHS can) over a limited period of time (e.g. five years) before returning to a balanced position. This technical cost-free change would provide councils with a powerful tool to manage their finances more holistically and would therefore enable local authorities to avoid making drastic cuts to vital services, as well as lowering the chances of any further councils needing to issue a section 114 notice.
- Looking beyond the immediate, there needs to be a coordinated, structured long-term investment in communities so local areas, and the country as a whole, can 'build back better' from the seismic impact of the pandemic.

<sup>2</sup> [Improving government's planning and spending framework, NAO, November 2018](#)

- Solace has proposed the Government should create a £100bn endowment fund – matching the quantum it has committed to invest in physical infrastructure – to inject new funds across the country into social infrastructure, in particular preventative measures.
- By focusing on prevention the fund will not only help the country to respond to the many longstanding issues exposed by the coronavirus crisis, but to also enhance the national recovery by improving and ‘levelling up’ citizens’ life chances, upskilling the nation, turbocharging our economy and unleashing Britain’s potential post-Brexit.
- Adopting such an approach will also increase local resilience, encourage service reform, reduce the demand for future public services and generate persistent gains for the Exchequer over decades to come.

### 3. What the impact is of another one-year spending review and a further delay to a multi-year settlement and the Fair Funding Review.

- Historically there has been no long-term vision for the sector’s finances, which has made it difficult for councils to plan from year to year.
- Financial uncertainty has wide impacts. In a separate Solace survey, nearly half (46%) of council chief executives and senior professionals said they were doubtful over their ability to help their local economies recover. The survey also found that nearly a third (30%) were doubtful of being able to help their places recover socially. And the principal reason for these doubts is the dire financial position that many local authorities find themselves in and therefore a lack of capacity and resources to address local place and local economy recovery.
- The absence of certainty around ongoing funding makes accurate and detailed planning impossible for councils and significantly increases the chances of service disruption/hiatus, with current providers more likely to seek alternative (and more secure) contracts elsewhere, leaving much needed services in the lurch.
- Unlike much of the public sector, councils must balance their budgets every year, but effective preventative programmes may have a payback period of ten or twenty years, and the Government’s funding timescales must reflect this.
- This Committee reported last year that councils “had no choice but to cut non-statutory services” due to the need to balance the books each year. “Forcing local government to reduce resources for these services”, said the Committee, “may cause higher costs in the future or just move pressures to other parts of the public sector”<sup>3</sup>, as well as hampering the sector’s ability to tackle inequalities.
- This short-termism can cause local government to become less resilient to future events, with sudden changes or shocks to the system usually leading to difficult choices about further cuts to services or an unplanned drawdown on reserves.<sup>4</sup>
- Solace is calling on the Government to commit to a minimum three-year financial settlement for local government, but ideally five years to match that received by our partners in the NHS.

<sup>3</sup> [Local government finance and the 2019 Spending Review](#)

<sup>4</sup> [Sustainable local services: A call to action, Solace, October 2018](#)



- The Government’s own review into local government finance processes and governance similarly found that councils can struggle to set budgets within current statutory deadlines, particularly when finance settlements are announced by central government later in the cycle<sup>5</sup> so speed is essential.

#### **4. The current financial situation of councils, how this has affected their ability to deliver services and the demand for services, including Adult Social Care.**

- It is widely recognised that before the pandemic local government was poorly funded – the LGA predicts an £8bn funding gap by 2025<sup>6</sup>.
  - The sector was facing an overall funding gap of £1.3bn in 2020-21, of which £810m was in adult social care.
- Local authorities have faced a reduction to core funding from the Government of nearly £16bn over the last decade.<sup>7</sup>
- According to the NAO<sup>8</sup>, services most critical to economic growth have taken the biggest cuts: planning (53% real terms cut), housing (46%) and transport (37%). While the NAO concluded “the sector has done well to manage substantial funding reductions since 2010-11” it added the “financial pressure has increased markedly” meaning “the current trajectory for local government is towards a narrow core offer increasingly centred on social care.”
- Before the pandemic English councils received, on average, more than a third less funding than Scottish and Welsh authorities due to different choices made by the Government and the devolved administrations.<sup>9</sup> The Spending Review provides an opportunity to address this gap and ‘level up’ allocations in England to match those of their council counterparts in Scotland and Wales.
- Solace analysis found the amount of per capita funding made available to councils in Wales and Scotland has increased by 5.2% and 0.2% respectively in absolute terms since 2010-11, while England has witnessed a 29.8% reduction over the same period.
- In 2018-19, English councils received, on average, £1,423 to spend on services per person - more than a third less than Scottish and Welsh authorities – £2,309 and £2,237 respectively.
- This disparity is not a direct consequence of the Barnett formula, but rather as a result of different choices made by the UK Government and the devolved administrations.
- A commitment to solving the social care crisis, in both children’s and adults services not just for older people, is crucial, not only for service users and the sustainability of local government finances, but the delivery of the aims and ambitions set out in the NHS Long Term Plan within a system that remains resilient as we recover from Covid-19.

---

<sup>5</sup> [Local Government Finance: Review of Governance and Processes](#)

<sup>6</sup> [LGA: Councils can](#)

<sup>7</sup> [Local government funding: Moving the conversation on](#)

<sup>8</sup> [Financial sustainability of local authorities 2018](#)

<sup>9</sup> [Solace analysis, in conjunction with Local Government Chronicle, November 2018](#)

- Local government will continue to seek to operate more efficiently and generate more income, but these savings will never be enough to make up the funding gap the sector faces, let alone address the new financial challenges presented by Covid-19.
- The sector urgently needs a plan to ensure that local services are put on sustainable footing.
- A significant uplift in funding to meet the funding gap facing the sector, combined with added certainty, will help local government to undo/start to reverse some of the impacts created by a legacy of underfunding over the last decade, which in many parts of the country has manifested in the state of the public realm.
- It is crucial that any uplift in funding should not be accompanied by a proliferation of one-off funding pots. Solace research<sup>10</sup> found almost £7bn has been made available to councils through one-off funding pots since 2010 (despite repeated Conservative Manifesto promises to do the opposite), with a growing trend in the last two years.
- The recent tranche of ‘deals’ accompanying Tier 3 restrictions also saw a further proliferation of one-off funding pots and opaque packages for local government.
- One-off funding pots in general are counter-intuitive, represent poor value for money and place constraints on money which means it is often spent on dealing with existing demand rather than on reform.
- The unpredictable timing of each pot also causes difficulties. The NAO warned that a lack of financial certainty “creates risks for value for money as it encourages short-term decision-making and undermines strategic planning.”
- There would be better value for money in aggregating the funding for smaller funding pots, which are often used to try and plug gaps in an unsustainable system, and putting it into core funding for local services which in turn would give councils a better chance to reform services.

## 5. Summary

- The pandemic has presented innumerable problems and challenges, some of which are new, but the Coronavirus crisis has largely exposed many longstanding, complex issues.
- The decisions and announcements made by the Government at this Spending Review will be critical to ensuring the challenges facing the country – resulting from the coronavirus crisis and Brexit – are grasped and that our communities can look forward to a positive future with confidence. Without the right quantum of support local government will be unable to play its full part in helping the nation to ‘build back better’ and the next stage of the nation’s recovery will be undermined.
- Continued underfunding of local government will also prevent councils from investing in prevention and so will inevitably limit peoples’ life chances, the ability to address inequalities, as well as resulting in additional demand being created for other parts of the public sector.
- The world after this pandemic will be challenging but given the right funding and resources, it is a challenge local government will rise to – just as it has done throughout the course of this crisis.

---

<sup>10</sup> [Revealed: Whitehall’s £6.8bn ‘penny packets’](#)



## 9. Additional information

- We welcome the opportunity to make representations ahead of the Spending Review but note that our members belong to Solace as individuals, not as representatives of the organisations that they work for. Therefore, speaking as the voice of the Solace membership, this submission indicates broad opinions and themes as opposed to providing detailed local authority evidence, which we expect will be sent directly from several local authorities and representative organisations.

Solace Business Partner



The Society of Local Authority Chief Executives and Senior Managers (Solace Group) Ltd; a company registered in England & Wales, number 04053417  
Registered charity number: 1084419  
Registered Office: Off Southgate, Pontefract, West Yorkshire WF8 1NT

Telephone: 0207 233 0081  
Email: [info@solace.org.uk](mailto:info@solace.org.uk)  
Website: [www.solace.org.uk](http://www.solace.org.uk)