

The Funding and Sustainability of Local Government Finance

INTRODUCTION

South Oxfordshire District Council works in partnership with Vale of White Horse District Council, and they are collectively referred to as 'South and Vale'. South and Vale are two district councils whose area extends across much of the southern half of Oxfordshire. The districts are largely rural and a large proportion of the districts have a Green Belt or National Landscape designation. The county has a two-tier system of local government. Oxfordshire County Council is the upper-tier authority for the county, with five district councils (including South and Vale) covering the whole area of the County Council.

CALL FOR EVIDENCE SUBMISSION

Is the local government finance system fit for purpose? If not, what needs to change?

No, the local government finance system is not fit for purpose. It has been a long time since the baselines for key drivers of funding (e.g. population, sparsity, indicators of deprivation and heightened need) were last reviewed. As a result, there is not enough funding within the local government system to meet local need.

The baselines for determining local authorities' need were last reset in 2013/14. In the decade since then, demographic shifts have changed the level and type of demand in local authority areas. Despite this demographic shift, the method by which funding is allocated to local government has not been re-evaluated to ensure it reflects an up-to-date assessment of need. As a result, councils have been chronically underfunded for a number of years and in many cases demand pressures are outstripping the funding available.

Launched in 2016, the Review of Local Authorities' Relative Needs and Resources ("Fair Funding Review") was due to set a new baseline for local authority funding allocations, using the best available evidence. Implementation of the review was delayed several times and is still yet to be implemented. Whilst the current Government is consulting on local authority funding reform, which it says also builds on lessons learned from the Fair Funding Review, and has promised multi-year funding settlements going forward, councils are still having to deliver services in the interim period which they do not receive adequate funding for.

Similarly, the Government's policy on Business Rates Retention has not been reviewed since 2013/14 and relies on outdated methodologies to apply 'top-ups' and 'tariffs' to local authorities. Equally, Council Tax forms a significant proportion of overall local authority funding, yet valuations have not been updated for over thirty years. Many properties would move banding if Council Tax valuations were reviewed, which could increase local authorities' Council Tax raising ability. In addition, the restrictions on Council Tax increases year-on-year without triggering a local referendum limits councils' ability to generate income. Together, outdated methodologies for Business Rates and Council Tax leave many councils unable to raise adequate revenue locally to support the delivery of essential services.

In addition, macro-economic factors outside of councils' control such as rising inflation have increased the cost of council service delivery. Local authority funding allocations have not kept pace with rising inflation, which effectively widens the gap between cost pressures and resources available. The increased cost of borrowing has also impacted local authority Capital Programmes and other projects, stalling progress on work that would deliver community benefit.

There are also issues around inflexibility of funding and competitive bidding for ad-hoc funding pots. The current Government has committed to ending competitive bidding processes, however this has historically required significant local authority resource in order to submit bids and collate the required evidence, with no guarantee of winning the bid. This has diverted resource away from service delivery, but not winning the funds would also impact service delivery – leaving many authorities with a difficult choice to make. Grant funding, when awarded, often comes with tight restrictions and ringfencing around what it can be used for, effectively preventing councils from spending the money in a flexible way that meets local need – given local authorities know their local area best. The use of capital receipts is also an area of difficulty for many authorities and, while the flexible use of capital receipts has been granted in recent years, many councils would benefit from the certainty of being able to use capital receipts flexibly as standard – rather than awaiting an annual announcement.

- **Does the local government finance system match funding to the relative needs of local authorities?**

No. As stated above, the baselines for determining local authorities' need were last reset in 2013/14 – over ten years ago. A lot has happened since then, including Brexit, war in Europe and beyond, the COVID-19 pandemic, economic recession, and the cost-of-living crisis, yet the methodology for assessing need is fixed in time. The updated assessment of needs which has been promised for some time is desperately needed so that local funding reflects local need – supporting councils to deliver services for their areas.

There is an expectation within the local government sector that the Fair Funding Review will address the issue of funding allocations that match local need, but it is vital that this is done in a fair and equitable way. Any future assessment of need linked to local authority funding allocations must reflect the needs of all services across all parts of the country, including taking into account the differing and conflicting needs of urban versus rural areas so that localities do not lose out. Whatever approach is taken, it must be consistent to take account of varying need in different local contexts.

- **Does the funding system allow and incentivise local authorities to make sensible long-term choices about their finances and budgets, to better serve their residents?**

For several years, councils have received single-year funding settlements from the Government, in a shift away from the multi-year settlements that preceded them. This has hindered long-term financial planning, as councils have not had certainty around funding allocations for future years.

Currently, councils receive details of their provisional funding settlement for the following year late in December before the budget is required to be agreed by Full Council in the following February. Budget-setting processes generally begin well in advance of the December, with councils required to make their 'best guess' assumptions on what they think will be set out in the provisional settlement in order to deliver a balanced budget. The current single-year settlement process generates uncertainty and effectively prevents more proactive, long-term financial planning.

There is also an argument that the local government funding system should not incentivise councils to undertake long-term financial planning, but rather it should seek to adequately fund services to meet identified local need. All councils are required to spend money using 'best value' principles and are well-placed to make decisions that reflect local need. Any

Government perception that local authorities do not make sensible long-term choices arguably reflects a fundamental disconnect between the Government's understanding of how councils work versus the realities of local government and local government agency.

- **How will this be affected by the introduction of multi-year funding settlements?**

The introduction of multi-year funding settlements should improve councils' ability to plan in the longer-term, as it should provide longer-term certainty around funding allocations and therefore afford increased stability to the sector. However, there are still a number of significant demand-led pressures faced by local government which require funding which is adequate to meet demand, alongside multi-year funding. For example, having an amount of money which does not adequately meet local demand but is provided over a number of years would still not address the issue of funding sustainability. As such, it is difficult to understand exactly how the introduction of multi-year funding settlements would impact local government finances until the details are made clear, including how allocations are calculated.

- **What parts of the local government finance system are working well and should be built on further?**

There are many changes required to improve the funding and sustainability of local government finance, including future certainty and sustainability through multi-year settlements and an updated assessment of need upon which funding allocations are calculated. Reforms in these areas have been promised previously by the Government, but local government is yet to see improvements to the system implemented. Local government would welcome reforms that lead to an improved funding system; South and Vale would urge the Government to build on its promises to deliver a fair, sustainable and longer-term funding arrangement for local government that is centred on an up-to-date, evidence-based assessment of need that is used to calculate equitable funding allocations.

Where are the most significant funding pressures in local government, and how does the finance system address them?

The most significant funding pressures in local government are in demand-led services. For upper-tier authorities, this includes adults and children's social care. District councils, like South and Vale, do not have responsibility for these services, but district councils across the country have been experiencing an exponential increase in demand for housing and homelessness services. In addition, the increasing cost of delivering statutory services (e.g. waste) and other services (e.g. leisure) has put further pressure on council finances. Further, inflation is high and has outpaced local increases in Council Tax and Government funding, the costs of borrowing have increased, and the national cost-of-living crisis has led to local need increasing – all of which have added significant pressure to already-stretched council budgets. In South and Vale, the impact of the cost-of-living crisis has led to demand for new support through our Community Hub service, which was not required a number of years ago and means additional investment from the councils.

A key way in which the finance system could address some of these pressures is by providing adequate multi-year funding settlements that reflect an up-to-date assessment of local need. In addition, by achieving national economic growth and stability, alongside addressing macro-economic factors such as high inflation and increased borrowing costs, the Government would help to reduce pressure on council funds and local residents.

Does the current statutory regime for identifying and responding to financial distress in local authorities support local authorities to get out of financial distress?

South and Vale have not been in this position, therefore have no comment.

- **Have Government interventions in response to local authorities being in financial distress helped those local authorities to stabilise their finances and avoid further financial distress?**

South and Vale have not been in this position, therefore have no comment.

- **What should a broader support system for local authorities in financial distress look like?**

Local authorities should be formally consulted on any future broader support system for financial distress, to ensure it reflects what the sector needs. Any reforms need to take a bottom-up approach to ensure they are fit for purpose and not be imposed from the top down.

- **Are there any specific circumstances that have led some councils into financial distress and others to avoid financial distress so far?**

All councils are required to undertake responsible and robust financial management. Significant demand pressures and reduced funding allocations have placed many authorities in difficulties through no fault of their own. Factors such as local demographics and, therefore, local need have a role to play in determining the state of local authority finances – at least to some extent.

How much control do local authorities have over their costs, including on mandatory services (which they are required to deliver by statute) and demand-led services (for which the level of cost is determined by the needs of residents)?

Local authorities are unable to control demand for many of their services, as this depends on a range of factors which are largely outside of councils' direct control. Local authorities can do their best to plan as far as possible in terms of the cost of delivery, including through contracting and commissioning, however councils have no control over factors such as rising inflation, which increases the cost of delivery. As such, councils have limited control over their costs.

It is worth noting that there are key statutory services which are also demand-led (e.g. housing and homelessness services) and local authorities have no choice but to absorb these costs. This can be seen in the case of the national Temporary Accommodation crisis. Therefore, statutory and demand-led services cannot always be differentiated.

- **How does this differ between different types of local authorities and between authorities with different devolution agreements?**

As a district council with no local devolution agreement, South and Vale are not best-placed to answer this question in any detail. While upper-tier councils have responsibility for adults and children's social care, which attract significant demand-led pressures, the impact of pressures on those services are still felt by district councils in their services, as social care services being overwhelmed by demand can and does have a knock-on effect to the delivery of other local services.

- **What flexibility do local authorities have in the delivery of their mandatory services, and to what extent do they have the ability to deliver non-mandatory services?**

Councils do have flexibility in how they run and commission services, including running services themselves, through a partnership with other councils, through Local Authority Trading Companies (LATCOs), and through outsourcing. However, this is set within a context of having to always follow a best value approach. Where grant funding is awarded for a particular purpose, there is often less flexibility in how a service or project funded by that grant is run, as there are often specific reporting criteria which have to be evidenced. This can mean a focus on meeting the criteria in order to qualify for funding, rather than a sole focus on addressing local need in a way that makes sense for a local area. In terms of councils' ability to deliver non-mandatory services, this is dependent on how much money is left over once the cost of statutory services has been accounted for. This varies in different local authority areas but is evidenced, for example, by many councils having to significantly reduce their leisure services offering, which is a discretionary service.

- **Has the level of demand for local authorities' services changed recently? If so, in which specific areas and why?**

Yes. In the last financial year, South and Vale saw a significant increase in demand for homelessness services of 12% and 34% respectively. These figures partly reflect the record levels of homelessness nationally. The key underlying drivers of demand for homelessness services are the cost-of-living crisis, increasing private rents, and the lack of genuinely affordable social housing. The top three reasons for homelessness in South and Vale are eviction by family or friends, the end of private tenancies, and escaping the risk of domestic abuse.

The complexity of homelessness cases is also increasing, with officers helping more households who have multiple care and support needs. South and Vale have amongst the highest rates of successful homelessness prevention in the country. This has helped, to some extent, shield the councils from the most severe social and financial impacts of the homelessness crisis. Nevertheless, the growing pressure upon the housing service is making the prevention and rapid relief of homelessness increasingly challenging.

We have also seen increases in demand for our Community Hub services, as residents and communities require more support within the context of the cost-of-living crisis and other adverse macro-economic factors. For example, households, including working households, are requiring more regular support from food banks.

- **Where local authorities cut costs by reducing the services they pay for or provide, what services are most affected and what is the impact on residents?**

Through responsible and robust financial management, South and Vale have not had to reduce services to date.

Anecdotally, across the country it is discretionary services which tend to be most affected, as councils are forced to strip back to their statutory services when finances are not sufficient. However, discretionary services are often of significant value to local areas, as many represent 'invest-to-save' services. As a result of cutting discretionary services, community cohesion and wellbeing can be reduced, while issues such as poor health and anti-social behaviour increase – which creates costs elsewhere in the system, not just for local government.

How well does the Government understand the consequences of funding and mandatory service decisions?

The Government does not demonstrate an understanding of the link between the provision of discretionary services, which are often of a 'preventative' nature, and the consequent impact on demand-led pressures. For example, preventative services can lead to reduced pressure on demand-led services as residents receive the support they need earlier and are less likely to need more intensive intervention and support. Receiving early, more preventative support can save costs throughout the life of an issue, though these costs may have ordinarily been incurred elsewhere in the system (e.g. health). Where 'invest-to-save' savings are made through the provision of discretionary services by local authorities, but those savings are incurred elsewhere in the system, it can be difficult to evidence the savings and the positive impact on the public purse more broadly. There is currently no holistic view of this sort of pathway within the Government.