GOING LONG

The sustainability of local government finances in the 2020s

Policy roundtable summary

by Callin McLinden

TUESDAY 16TH NOVEMBER 2021

1. Overview

Context: Spending Review 2021

In the run-up to the Autumn Budget, the expectation was that expenditure tramlines had already been marked out by the earlier promises made to protect funding for defence, education, and health service budgets.

On the face of it, this immediately looks like the most favourable budget/spending review for a decade. The initial take on the chancellor's statement must lead with the unexpectedly large increase in day-to-day revenue expenditure, an increase of £150bn (3.8% in real terms) to departmental budgets over parliament.

For local government, the work starts now in poring over the Treasury Red Book and supporting documents to see how the announcement might translate to future local government financial settlements, in an environment of increased staff wages and rising national insurance costs. After the lost decade of the 2010s, officers will be examining how this new money affects the trajectory of council spending power over the next decade for the delivery of popular, everyday public services from bin collection and road maintenance and what this means for locally-funding children and adult's social care.

Local government as a necessary engine with a meaningful role for achieving the ambitions of levelling up on the ground is still a possibility . Alongside the litany of key constituencies namechecked by the chancellor in his Budget statement, the capital financing of improving infrastructure – digital, physical, or social – is another skein to be studied.

If 'Levelling Up' is to run as a golden thread through the Exchequer's strategic public finance settlement, there will be a need to unpick locally the individual strands from the likes of the £1.7bn Levelling Up Fund and UK Shared Prosperity Fund to see how much cloth there is to be cut to restore pride in the places people call home. This portends more of the same 'tournament financing' which binds senior local government officers as full-time bidders for pots. The questions remain:

- *will this investment, in housing or other spheres, deliver good and clean growth?*
- *will the framework to support our long-term plan for growth make this money pay dividends?*
- *will the economic strain of meeting today's promises put a hard squeeze on national resources by the time of the next parliament?*

In this context, 'Going Long' served as a roundtable discussion for local government leaders to debate the implications of the 2021 spending review for local government's ability to deliver for people and place.

Localis is grateful for the input and insight provided by the roundtable's attendees, who have been listed overleaf. The roundtable series was kindly funded by Capita who have had no involvement in either the content of the meeting agenda or this report.

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Roundtable agenda

With this context in mind, the roundtable considered the following topics and questions:

- ***The end of austerity?*** *What will the 2021 Spending Review mean further down the line for the provision of reformed local public services and opportunities to deliver better and more responsively?*

- ***Going for growth.*** *Given the government's commitment to building up regional economies, does the spending review provide enough financial and policy headroom to achieve this?*

- ***Building local resilience.*** *Does the spending review and – when finally published, the Levelling Up White Paper – provide scope, or a viable direction, for councils to learn lessons from the pandemic to create resilience at the level of place and community?*

- ***Councils can do it for themselves.*** *To what extent can councils exploit their own assets or make use of their convening power to locally-fund vital services and social infrastructure or otherwise ensure local priorities are met?*

Panellists

A range of national and local experts were invited to the panel to lend their thoughts on the challenges and opportunities presented by the push to local growth and regional development encapsualted in the levelling up agenda:

- ***Chris Chapman****, Director of Finance & IT,* ***Bradford Council***
- ***Geoff Little****, Chief Executive,* ***Bury Council***
- ***Paul Abraham,*** *Managing Director of Local Public Service,* ***Capita***
- ***Andrew Lewis,*** *Chief Executive,* ***Cheshire West and Chester Council***
- ***Andrew Burns,*** *Associate Director,* ***CIPFA***
- ***Tracie Langley,*** *Chief Operating Officer (S151),* ***Cornwall Council***
- ***Adrian Osborne,*** *Head of Strategic Finance & Insight,* ***Essex County Council***
- ***Jonathan Werran,*** *Chief Executive,* ***Localis***
- ***Tom Wilkinson,*** *Deputy City Treasurer,* ***Manchester City Council***
- ***Steve Richardson,*** *DIrector, Finance and Resources,* ***Milton Keynes Council***
- ***Peter Shakespear,*** *Corporate Director, Resources,* ***South Staffordshire Council***
- ***Mike Harris,*** *Executive Director, Business Services/Deputy Chief Executive,* ***Southampton City Council***

2. Roundtable Discussion

Each agenda item was posed to the group by Jonathan Werran, as meeting moderator, and attendees were invited to contribute. The following is a write-up of key contributions for each topic.

2.1 The end of austerity?

Uncertainty
The sector cannot be sure the most recent spending review will be good for them, until the details of a settlement and its allocation are laid out. There are still unanswered questions – regarding bonuses, distribution, methodologies, and processes – that leave the sector still very much uncertain and insecure funding-wise. Only then will it be known how the rhetoric of levelling up and more promised funding turns out in practice through the settlement.

In the meantime, it was felt the significant level of uncertainty would make it difficult for local authorities to be innovative, to present and capture investment opportunities, or plan beyond the one-year of confirmation, towards the two-year indicative process laid out.

It has been alluded to that a wave of regional funding will be issued once the Levelling Up White Paper is published. Delay in publication - the paper was scheduled for release in early autumn 2020 - compounds uncertainty even further, and tournament-style funding pools are working antithetically to addressing the gaps identified by 'levelling up'. Residents are left with the perception from government rhetoric around 'levelling up' that there is more money circulating for councils that is somehow not reaching them. Instead, in operational reality, councils are still faced with having to raise tax or cut services to cover costs. Whilst the most recent spending review may have at first seemed better than what was expected, ultimately the sector feels as though it was 'front-loaded'. The 'cast-flat' approach to allocation over the course of two to three years will end up with some larger authorities gaining under £1m at the end of multiple funding streams – but nothing like the largesse suggested.

Relevant pressures
Given the financial impact of COVID-19 and an ongoing funding crisis surrounding social care, the numbers and process laid out in the spending review so far does not seem to cover the full spectrum of demand. Demographic pressures will compound these issues in the long run too. Furthermore, the impact of inflation cannot be underestimated. As a factor it has wiped out, a contributor noted, the entirety of their authority's savings. Simply changing the cap and threshold of social care spend is nowhere near enough; adult social care, as such a dominant public service market, requires and demands proper investment.

As a sector, local government remains a long way away from managing to hold its own funding-wise and is realistically looking at deep service cuts in some areas – shattering any optimism about the 'end of austerity'. Other barriers – including health, skills & education, and employability – stand as huge strategic issues that require medium to long-term financial planning from local authorities, something that is made extremely difficult by the still short-term funding arrangements of the spending review. These issues need addressing by a more considerable injection of funding at the local level – to modernise and reform public services at the level of place.

Lack of local nuance

The increased funding envelope is certainly welcome. A key assumption of the spending review is that all councils should be able to maximise their council tax raising powers. However, increasing council tax charges is a huge, insuperable political issue at local level. The ability to raise council tax beyond the three percent threshold is politically unviable – especially considering taxes nationally are historically high already. Yet adult social care and other pressures will demand either minimal 3% council tax increases or deep service cuts or a combination of both. Neither of which suggest 'levelling up' in action. Nonetheless, the willingness to turn the taps on in terms of capital expenditure for physical infrastructure and local economic growth was welcomed and seen as a key opportunity for the sector to pressure the government to go further.

Furthermore, there are concerns that the levelling up agenda will fail to achieve the granularity necessary for placemaking nuance and discretion if funding is not distributed more equitably, reaching the lowest tiers of government. If it is not approached on a similar basis, the risk is that levelling up 'gaps' will broaden and stuck places will remain left behind.

2.2 Going for growth

Discretionary allocation

'Tournament financing', whether replacing ERDF and European funding or as part of further 'levelling up' settlements, is developing an unhealthy competitiveness in the sector that will result in places less able to collect and collate evidence of their own deprivation less likely to receive funding. This is something antithetical to the stated goals of levelling up.

The key issue is that this does not build long-term coherence and opens the government wide open to such accusations of clientelism and disempowerment of local government. Too often, recent funding pots have been seen to implicitly support individual MPs rather than a drive toward genuine placemaking. There is a sense that local authority growth and infrastructure projects are being mediated through ministerial discretion and MP's offices.

Despite negativity, there have been gains around the UK Shared Prosperity, Levelling Up and Towns Deal funds. Despite their competitive nature, they have encouraged some places to become more strategically aligned with one another - with local authorities working in partnership with stakeholders across education, health, business, and the wider public sector.

To be able to deliver against funding, places have had to demonstrate that all local partners are on board. Many local authorities have stated that before tournament rounds of funding and COVID-19 pressures, they did not have these kinds of relationships. These have engendered a strength of feeling that has raised their local voice – which has been of significant tactical importance for supporting strategic goals. However, ultimately this can mean 'elbowing' out other, sometimes neighbouring localities to gain funding, which is not helpful for levelling up the sector and left behind places. Those who benefit become enthusiastic, and those who do not become aggrieved with a system that has had accusations of having too much civil service discretion and political bias.

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Financial headroom

The sector is not convinced of increased financial headroom. There are revenue gaps in terms of social infrastructure that remain far too big and dominant. 'Levelling Up' is largely understood as a capital investment from central government, rather than revenue investment. Down this route, a contributor argued, it is unlikely that there would ever be sufficient to achieve the stated levelling up goals. However, the sector is being driven down a path where they are competing for ever-decreasing cashpots, nonetheless.

Participants expressed the view that the spending review merely spelled a continuation of centralised, unsustainable capital grant arrangements that fail to recognise and get to grips with the scale and complexity of funding capital investment in the UK. There is an ever pressing need to come up with a funding allocation system that is cross-sectoral, long-term, transparent, and built with the budgets of all tiers of government in mind.

Beyond central government funding, there is the prudential code and relevant borrowing mechanism. Many at the event felt as though the power of this reform is being underestimated by the sector. There is a need to try to strengthen its ability and have it still remain permissive. However, the current notion of investments being proportionate, based on how much an authority is borrowing compared to the size of the authority's ability to repay, was seen as restrictive. It was argued that the code needs to become more permissive if it is to enable growth in the medium to long-term.

Policy headroom

Regarding the policy headroom, the picture is slightly more optimistic. As newly appointed secretary of state, Michael Gove has spoken of local leadership, better services, and pride of place when asked what levelling up means. It was asserted that any headroom that was developing emerged as a result of central policy being so 'messy'. However, this has advantages; policy – whether devolution, planning, or whatever else – is regarded as incoherent centrally, the sense has grown around the upcoming levelling up white paper that it has become a conflation of many policy strands. This leaves local government in a strong position to fill the gaps and pursue innovative solutions locally. Make no mistake, they must still be enabled and supported to do this across the sector and successfully – but the policy space is there. Local areas are well placed to make the right decisions about finance and policy, and outcomes would improve if they were trusted by central government to do so.

Local government has the convening power and a strong track record in leading transformative change. The key worry is that government only sees this as evident as far as combined authorities but are less enthusiastic about those areas of the country that are not yet part of such strategic growth arrangements. A particpant noted that there is a need for innovation nationally, to recognise that there is a funding crisis and challenge the regurgitation of stale approaches and arguing over who gets to hold the reins of power.

2.3 Building local resilience and council autonomy

Identifying the 'left-behind'

Articulated by local finance leaders, the first step to building local resilience is to identify the issues most acutely faced by communities that must be addressed by the levelling up agenda. What these issues all tend to boil down to is deprivation and poverty, and how best to get people who are struck by poverty and crisis to lead better lives. This involves identifying what types of social infrastructure are lacking most and which places are most in need of – so that those most left behind do not have to rely on the NHS and adult social care for support when things get particularly bad. From this, local partners can be brought on board and the private sector, with investable assets, can be brought into the fray, also serving to drive skills and economic growth locally. Councils cannot do this on their own, but as strong convenors for holding the ring. If they are to settle and thrive into this convenor role to tackle community issues, then they need greater power and investment.

Pandemic lessons

The long-term lessons of COVID-19 will be key to building local resilience going forward. The pandemic demanded a better alignment of local public services through healthcare, businesses, universities, and other anchor institutions coming together to handle the crisis as it unfolded, make better use of data and evidence, to ensure that resources and services are being allocated more effectively and efficiently.

Over the course of COVID-19, there was a period where central government subverted normal rules – whether this was regarding business grants, covering loss of income – whilst local government proved itself capable in the delivery of PPE and vaccination uptake. The ability of local government to be autonomous and make good, swift decisions was demonstrated and the sector needs to be able to make the case for increased financial autonomy.

With the pandemic opening new potential ways of remote education and working, councils will be key to linking communities with opportunities and partners locally and outside of urban centres. Linking different businesses and attracting inward investment requires a level of visibility and social value nuance that the sector is not accustomed to – particularly districts. Achieving this visibility and pursuing social value can unlock positives for communities and will furthermore develop a broader measure of what value means to people and places. This will represent a strong link between inclusive growth and alleviating poverty.

Furthermore, COVID-19 placed emphasis on inequality and needing to understand the needs of localities on a neighbourhood-by-neighbourhood, demographic basis. Detailed statistics, models, and evidence bases have been developed off the back of necessarily strengthened relationships between local stakeholders, and between local and central government. One of the positive features of receiving multiple grants is that the money has had to be used for specific purposes. In working to ensure that it gets to those most in need, councils have had to work closely with a variety of local partners and think much harder regarding data and targeting.

Participants also identified that integration between health and social care as well as reorganisation of local government more generall were areas of great opportunity. A developing emphasis on integrated

care systems was noted as a key opportunity for the sector to begin pushing the boundaries of accountability and thinking about squeezing the most out of the public pound and making it work for communities. The tacit mutual trust which developed between central and local government over the pandemic has put the sector in a stronger position now to put forward a new and more ambitious approach to how investment and services should be pursued best.
The critical notion going forward will be how to build on these strong crisis relationships and tinker them to work in the medium to long-term for the sake of inclusive, sustainable growth and alleviating poverty.

However, a more optimistic view is that, whilst there may not be any new money entering the sector for economic growth, there could be a diversion of existing money in the system. Where these diversions lead – whether regions, sub-regions, or local authorities themselves – will be a key signal. The future of LEPs and industrial strategies were also seen as key here.

What is ultimately necessary is certainty. Local government needs to be stronger in its demand for longer-term funding that is more of a needs-based settlement, than patchwork bidding rounds. There is precedent regarding the NHS and their longer-term, more assured settlements, so why not build on this and offer up a similar arrangement for local government. Relatedly though, local government must be certain and clear with how it plans to make better use of money that it already has. A panelist noted that for most councils there would inevitably be certain policies that could be reformed to be more cost-effective and locally beneficial.

Roundtable kindly supported by:

Capita