SIGOMA Response to the Local Government Finance and the 2019 Spending Review inquiry

1. About SIGOMA
1.1. SIGOMA represents metropolitan and unitary authorities outside London, from the Southern Ports, the East Midlands, West Midlands, North West, North East and Yorkshire & Humberside. The 47 SIGOMA councils are home to 13.8 million people, 24.9% of the English population.

1.2. Our authorities typically represent areas that have suffered most during post-industrial decline. Many members feel that Whitehall has quickly forgotten the immense contribution their towns and cities have made to the status the country still enjoys in the world and has no vision or aspirations beyond currently thriving regions.

1.3. 42 of our 47 authorities are in the lower half of MHCLG’s Deprivation Ranking with 10 of the most deprived decile (15 authorities) being SIGOMA members, including the first 5 most deprived.

1.4. The real-terms spending power of local government overall fell by an average 28.8% between 2010 and 2019 but, for SIGOMA authorities, the cut has been 34.3%, an additional £865 million cut, or £18 million per authority.

1.5. As funding for authority services has fallen over the last decade due to austerity, reliance of residents on vital local services has increased. There is a strong, pervasive and well documented link between deprivation and the demand for (and cost of delivering), services by local authorities. Government must be clear that if this is not adequately recognised in the Fair Funding formula and the Spending Revue, the residents that our authorities represent face another decade of further decline in the core services on which they are increasingly dependent and of relegation to the status of second class citizens.

1.6. As this response is being written, the country is still experiencing the divisive consequences of what we firmly believe were votes of disaffection, firstly in the 2016 Brexit referendum and then at the 2018 general election, which returned no overall control. A Spending Review that fails to address these growing divisions and results in an even wider poverty gap can only serve to increase disaffection, however Brexit unfolds.

1.7. We apologise for the fact that our submission exceeds the recommended word length but hope our comments and suggestions will all be given serious consideration. Making those left-behind areas, that voted to leave, feel valued, will be essential if we are to stand any chance of bringing our country together.

1 2015 Index of Multiple Deprivation produced by MHCLG
2. **Executive Summary**

2.1. Funding to local authorities has reduced dramatically since 2010, when the austerity programme began, with the most grant dependent councils losing the greatest proportion of funding.²

2.2. At the same time that overall funding has fallen, a greater share of the total has been earmarked for incentive schemes to benefit more prosperous authorities, including New Homes Bonus, Business Rate Growth Retention and the Social Care Precept, leaving less funds available for a needs share.

2.3. Welfare reforms have resulted in those most at risk being thrown back onto local services to meet their basic needs. This has increased the likelihood of their presenting as clients in one of the reactive care services and thereby increased demand led pressures on local government, particularly in the more deprived areas which are home to greater proportions of welfare recipients.

2.4. Measures of council needs have been frozen since 2013, including a baked-in element of damping grant. This has had the effect, over the last decade, of sustaining funding above their assessed needs share for some authorities until 2020, at the expense of others.

2.5. The overall quantum of funding in 2020 has fallen significantly short of that needed to sustain essential services going forward.³ Government plans, to allow additional rate retention on a fiscally neutral basis, will not relieve this shortfall, and will place additional risks of underfunding with authorities.

2.6. Authority spending has reacted to continuous cuts with lower service expenditure, increased use of reserves and a greater concentration of expenditure in reactive care services. Expenditure on preventative services meanwhile has seen deep cuts.

2.7. In recent years, ad hoc grants have shored up basic service provision, carrying authorities up to 2020 but not beyond. Funding beyond 2020 is unclear but the headline policy of greater reliance on locally raised income continues. This increases the risk of under funding for some councils.

2.8. Over the last 4 years, selective funding awards have been introduced as an apparent result of lobbying rather than policy, such as Rural Services Grant, the elimination of negative RSG and Transition Grant, undermining the “four year offer” of 2016.

2.9. Local authorities have not been encouraged by earlier reports of the NAO and by the responses of MHCLG senior officers to inquiries into financial sustainability by House of Commons Committees. There are doubts about whether MHCLG are faithfully and accurately presenting the financial state of LA funding needs to HM Treasury.

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² [https://www.ifs.org.uk/publications/8705](https://www.ifs.org.uk/publications/8705)
2.10. There are assumptions built into the most recent Fair Funding review proposals that are not supported by, and in some cases actually run counter to, the available evidence. This risks the credibility of the review with the sector.

2.11. Business Rates and Council Tax are both overdue review both from the point of view of fairness for taxpayers and for local authorities.

2.12. The possibility of alternative income sources is interesting. However, we would caution that, whatever ideas may be put forward, they would be unlikely offer the same opportunities for revenue rising to all authorities. For many of our members, adequate overall funding matched with fair needs-based redistribution is a more realistic aspiration than self-sufficiency.

2.13. Extending devolution has the support of some, but by no means all councils. There is concern over how much autonomy there would be at local level beyond the choice currently offered of “what to cut”.

2.14. Ambitious and elaborate devolution plans and alternative funding sources seem a secondary objective to our members when compared to the more immediate issue of a fair share of a fairly raised national taxation pot, over the next spending review. The value of any locally raised income is likely to vary significantly from one authority to the next. So the priority should be on securing sufficient and sustainable overall funding and a fair needs-based redistribution to avoid the postcode lottery of local services that residents in SIGOMA areas already face.

3. **Background**

*Historic Formula Damping*

3.1. The formula element of needs funding was last reviewed in 2013.

3.2. The resultant allocations from that formula were, however, amended to mitigate the year on year reductions to authorities where their formula entitlement was less than their actual funding in the previous year.

3.3. Known as “damping”, this gave funding above formula allocations to some authorities. This was paid for by reducing formula grant to authorities whose formula share increased.

3.4. By this method, 209 councils received a total £565 million less than their formula share (an average -4%) in order for 143 authorities to receive £565 million more, or an average +11

3.5. Damping has remained within formula funding in every year from 2013 to date. The value of damping has reduced since 2013 (not by any action of MHCLG, but simply as a function of the decreasing overall value of funding) yet still represents around £340 million in 2019-20.
Current Local Government Funding Formula

3.6. The committee will be aware (and will no doubt be reminded from various sources) that historic formula has been criticised for its complexity.

3.7. The workings of the current formula is opaque, being a combination of “rolled-in” grants, and a per head allocation weighted according to services demand and cost of delivery.

3.8. What is certainly true is that the way that formula allocations were presented by MHCLG in 2013 made it near enough impossible for the average council Finance Officer, let alone member of the public, to assess how much of their allocation was driven by the services they provide and their demographic profile.

3.9. In addition, the old formula (as will be the case with the new one) is a relative distribution model. That is, it fixes an authority’s proportion of funding, not the absolute amount.

3.10. Therefore, an authority cannot predict its allocation based on its own data until it knows the same data for all other authorities and the total quantum of funding. Both are factors that MHCLG keep close to themselves until their proposals have passed the point of consultation.

Relation to a New Needs Formula

3.11. The clamour for a simpler formula and claim that the old one is “not fit for purpose” has been loud, but for us, it drowns out a more nuanced evaluation that is needed. Our experience in working group discussions has been that many commentators have not attempted to understand how the historic formula operated and have simply equated a simpler formula with fewer weightings.

3.12. No one, MHCLG included, has defined what is meant by simplicity or how we will know if simplicity has been achieved. Nor have MHCLG addressed our questions on how the formula will be presented to aid simplicity.

3.13. We believe there is an agenda underpinning this call for “simplicity” to make allocations equate to a simple population average which will benefit more affluent authorities whose general population is at less risk of needing expensive council services, to the detriment of those who have populations whose service demands are greater. In other words, there is an apparent desire from many quarters for a new formula where underlying needs matter less.

3.14. The truth, however, is that there are social and health factors within different populations that strongly influence levels of demand and which need to be taken into account. Foremost among these is deprivation.

3.15. The historic formula recognised that for some services there would be additional demand and costs due to the urban setting of the service and increased daytime populations.
3.16. Due to pressure on the Minister from intensive rural services and county council lobbying, the Department is failing to recognise these factors, which must be taken into account in formula funding and the spending review.

3.17. The Department has apparently accepted, with no evidence and no cross-examination of its own, the suggestion by rural authority lobbying groups that a cost premium should be applied to services in rural (sparsely populated) areas across almost all areas of service expenditure.

3.18. This is despite earlier research by the Department that indicated the great majority of service costs either reduced with sparsity or were neutral.\(^4\)

**DCLG/DEFRA Research into Drivers of Service Costs in Rural Areas 2014 Extract**

A summary of the results is as follows:

- Of the 51 expenditure groups considered, sparsity was found to be positively and significantly related to unit costs in 11 cases. These services accounted for £7.0bn (or 15.0%) of local authorities’ total expenditure in 2012/13.
- Sparsity was significantly and negatively associated with unit costs in 15 cases. These expenditure groups accounted for £14.5bn (or 31.1%) of total expenditure in 2012/13.
- In the remaining 25 cases, sparsity was not found to have a statistically significant effect on unit costs. These groups accounted for £25.3bn (or 53.9%) of total expenditure.

3.19. The new proposals are over simplifying allocation formula in pursuit of a “flatter” formula that benefit less needy authorities and are therefore less fair. MHCLG should present the committee with their assessment of the impact this will have on local populations with different levels of relative need.

3.20. MHCLG should illustrate to the inquiry how allocations will be presented so that the inquiry can determine if this is indeed simpler.

3.21. MHCLG should explain to the inquiry the lack of measures for demands arising in urban settings and its own analysis of rural and urban services cost drivers.

3.22. MHCLG should explain why they have opted to omit deprivation from the foundation formula which applies to services like homelessness, when their own analysis (which has been criticised from many quarters for erroneously underestimating its impact)\(^5\) suggests it is the second most significant cost driver after population.

\(^5\) https://www.ifs.org.uk/publications/13922 & https://betterhealthforall.org/2019/02/18/local-government-funding-review-how-can-we-better-help-the-areas-that-need-it-the-most/
4. **The Current Quantum of Funding**

4.1. The LGA has identified a funding gap of £3.2 billion by 2020 and states that councils will have lost 60p in every pound by the end of the decade\(^6\).

4.2. According to responses to a 2018 SIGOMA survey, we estimate that SIGOMA authorities face at least an £800m Funding gap this year alone.

4.3. As a result, 76% of council finance officers surveyed say they risk having to strip services back to a “minimum core offer” of statutory duties by 2020.

4.4. The impacts of this underfunding will be assessed in later sections.

4.5. **The quantum of local government funding must be sufficient to deliver basic services of equivalent quality across the country.**

4.6. **If central government has policy aspirations beyond the basic for local authorities, then it must also be sufficient to fund these in addition.**

4.7. **The Department and the Treasury should listen to the warnings of the Public Accounts Committee, the LGA and others that they must make a rational, evidence-based assessment of the total value of funding necessary for Councils to deliver basic services. To date, they have not shared evidence of having done so.**

5. **Changes in Funding Profiles**

5.1. At the same time that funding has fallen, the basis on which the overall total has been distributed has changed.

5.2. In 2010, when core spending power was £55,188 million\(^7\), more than 60% of funding was allocated on a needs basis, either formula based or by matching grant to specific services.

5.3. As can be seen in table 5.4 below, the needs proportion fell in 2013-14 but was still more than half of the reduced CSP of £47,850 million.

5.4. By 2017-18, with core spending power down by 19% at £44,850 million\(^8\), needs distribution made up just 40% of the total, with Council Tax and Incentives making up just under 60%.

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\(^6\) [https://local.gov.uk/about/news/funding-black-hole](https://local.gov.uk/about/news/funding-black-hole)

\(^7\) Adjusted for comparison to the 2017-18 core spending power definition.

\(^8\) MHCLG’s calculation of growth in business rates (£554 million) has been added to the 2017-18 core spending power total in our illustration.
Profile of Core Spending Power 2010-11 to 2017-18
(source as a percentage of the whole)

<table>
<thead>
<tr>
<th>Allocation basis</th>
<th>2010-11</th>
<th>2013-14</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Tax base</td>
<td>35.1%</td>
<td>43.6%</td>
<td>55.0%</td>
</tr>
<tr>
<td>Needs basis</td>
<td>64.4%</td>
<td>54.9%</td>
<td>40.1%</td>
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<tr>
<td>Growth incentive</td>
<td>0.1%</td>
<td>1.4%</td>
<td>4.4%</td>
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<tr>
<td>Protection of funding</td>
<td>0%</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Other</td>
<td>0.4%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

5.5. It is not difficult to appreciate that the change in emphasis on how funding has been allocated has been of more benefit (or less detriment) to authorities with a large and growing Council Tax base and a thriving business estate than to authorities with a low council tax base and struggling to grow their business rate base.

5.6. Hence Knowsley council saw the following change in its core spending power:

<table>
<thead>
<tr>
<th>Allocation basis</th>
<th>2010-11</th>
<th>2013-14</th>
<th>2017-18</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Tax base</td>
<td>31.9</td>
<td>37.8</td>
<td>46.4</td>
<td>45%</td>
</tr>
<tr>
<td>Needs basis</td>
<td>185.5</td>
<td>137.3</td>
<td>98.2</td>
<td>-47%</td>
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<tr>
<td>Growth incentive</td>
<td>0</td>
<td>0.9</td>
<td>9.0</td>
<td>100%</td>
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<tr>
<td>Protection of funding</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Spending Power</td>
<td>217.4</td>
<td>176.0</td>
<td>153.6</td>
<td>-29%</td>
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5.7. Whilst for the unitary authority of Poole, the change was as follows:

<table>
<thead>
<tr>
<th>Allocation basis</th>
<th>2010-11</th>
<th>2013-14</th>
<th>2017-18</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Tax base</td>
<td>60.2</td>
<td>64.4</td>
<td>74.4</td>
<td>24%</td>
</tr>
<tr>
<td>Needs basis</td>
<td>51.9</td>
<td>38.3</td>
<td>24.1</td>
<td>-54%</td>
</tr>
<tr>
<td>Growth incentive</td>
<td>0</td>
<td>1.5</td>
<td>3.7</td>
<td>100%</td>
</tr>
<tr>
<td>Protection of funding</td>
<td>0</td>
<td>0</td>
<td>0.9</td>
<td>100%</td>
</tr>
<tr>
<td>Total Spending Power</td>
<td>112.1</td>
<td>104.2</td>
<td>103.1</td>
<td>-8%</td>
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</tbody>
</table>

5.8. Despite having a lower percentage reduction in needs allocations, a higher percentage increase in Council Tax funding and a higher £ value in growth funding, Knowsley has suffered a much greater percentage reduction in its core spending power.

5.9. This is because Knowsley has a much greater dependency on needs funding, which is falling, and can only earn a smaller share of its overall needs from its house building and business rate growth than Poole.

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9 2010-11 CT data is adjusted to move CT benefit in needs. Treatment of CTB changed n 2013-14 reducing tax base and creating a fixed grant for CT support
10 Contains increased rural services delivery grant and transition grant. Removal of negative RSG is not taken into account in this analysis though this is another protection
5.10. The Government’s unwillingness to recognise this is illustrated by the fact that Poole, with a fall in CSP of 8%, received transitional protection in 2017-18 whilst Knowsley received nothing.

5.11. This approach has had a much greater negative impact on some of the poorest parts of the country as illustrated in the following extracts:

### Percentage Reduction – Revenue Spending Power 2010-2020 (NAO Data)

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<tbody>
<tr>
<td>Surrey</td>
<td>-1%</td>
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<tr>
<td>Wokingham</td>
<td>-2%</td>
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<tr>
<td>Buckinghamshire</td>
<td>-3%</td>
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<tr>
<td>Rutland</td>
<td>-4%</td>
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<tr>
<td>South Tyneside</td>
<td>-5%</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Blackburn with Darwen</td>
<td>-6%</td>
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<tr>
<td>Manchester</td>
<td>-7%</td>
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<td></td>
</tr>
<tr>
<td>Knowsley</td>
<td>-8%</td>
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### Indexed Reduction in Spending Power 2010-2020 (NAO Data)

5.12. The pattern of selective top-up funding has undermined confidence in the Government’s own 4 year offer of 2016 with no rational explanation for any of them.

5.13. These adjustments, which have consistently benefited the most affluent areas, have included: Transition Grant (£300m), Rural Services Grant (£291m) and the ‘Elimination of Negative RSG’ (£178m).

5.14. So, not only was centrally driven austerity much lower for the most affluent areas, these funding adjustments during the four year offer also served to reduce that burden even more.

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11 Real term
5.15. The following graph shows, by deprivation decile, the composition, in £-per-head of cuts over the 4 year offer period. The lighter sections illustrate what the cuts would have been without top-up grants from Government.

![Graph showing composition of cuts](image)

5.16. Here, we can see that almost all of this top up funding, purportedly for those facing the worst impact of cuts, has been allocated to the most affluent half of local authorities. The most affluent 10%, which should have seen funding cuts of £66 per head during the four year offer period actually saw a net reduction of less than half that (£31 per head) due to this additional funding. Meanwhile, the most deprived 40% of authorities received no reduction in their cut per head.

5.17. Overall funding must be sufficient for the local government sector as a whole to provide an equivalent standard of basic services, but there must also be an acknowledgement of and a remedy to the disproportionate burdens borne by deprived areas. This must start with funding the services that local government are required to provide in proportion to need.

5.18. Core spending power must be the key measure used to determine the impact of funding changes.

6. **The Impact of Welfare Reform on Local Authorities**

6.1. There has been widespread analysis of the impact and potential impact of welfare reform, including from the House of Commons library, but sadly no analysis by the DWP since its Impact Assessment of August 2016.

6.2. The House of Commons report of 2018 listed the main measures as:

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12 **Research briefing effect of the welfare reform Act 2016**
Lowering the household benefit cap threshold.
A four-year benefits freeze.
Limiting support through Child Tax Credits/Universal Credit
The abolition of Employment and Support Allowance Work-Related Activity Component
Changes to conditionality for “responsible carers” under Universal Credit
Replacing Support for Mortgage Interest with Loans for Mortgage Interest
Reducing social housing rent levels by 1% in each year for four years from 2016-17

6.3. In addition, since 2013 authorities have taken on the burden of Council Tax Support (formerly Council Tax Benefit), funded by grant which came with a 10% “efficiency” cut and which has reduced annually since then.

6.4. At 90% support, the value of the grant was £3.1 billion but we estimate the current value of the grant at around £1.8 billion.

6.5. Whilst authorities are obliged by statute to maintain the value of support for pension age claimants, authorities have faced the difficult decision of charging their deprived local residents some of the shortfall in funding from Government.

6.6. This has impacted unfairly on individuals across the country due to the way that Council Tax Support has been localised, as the IFS note13:

Low-income households are more likely to have seen their CTS cut if they live in a more deprived area. This is because councils in poorer areas received bigger funding cuts from central government and, as a result, were more likely to cut CTS. Households among the lowest-income fifth in England had a 60% chance of seeing their entitlement reduced if they also lived in one of the most deprived fifth of LAs, but only a 46% chance if they lived in one of the least deprived fifth of LAs.

6.7. The impact of welfare reforms will hit hardest in areas with low employment prospects. The 2017 report for the LGA identified 18 authorities with high numbers of capped households and low employment rates. There are clearly issues around rental values in London but 9 of the 11 authorities with high numbers of capped households outside London are SIGOMA members, a problem compounded by lower than average employment rates.14

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14 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/locallabourmarketindicatorsforcountieslocalandunitaryauthorities101 (SIGOMA average is 72% compared to an English Average of 75% in 2017-18)
6.8. The impact of welfare reforms have been linked to significant spikes in serious social problems, including:

- The exacerbation of mental health problems\(^ {16,17}\)
- Reported increases in substance misuse and drug related deaths\(^ {18}\)
- Rises in crime rates, particularly knife crime, up 23% since 2010\(^ {19}\)
- And a dramatic spike in homelessness\(^ {20}\), reported to be up 165% since 2010\(^ {21}\)

6.9. Much of the independent analysis has rightly focussed on the impact on individuals and households. It is inevitable though that more pressure is placed on local agencies when vulnerable residents are at risk due to lack of money for their basic needs

6.10. In most cases of deteriorating welfare support there are greater pressures on Councils to:

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\(^{16}\) https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06988
\(^{17}\) https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6025145/#B36-ijerph-15-01145
\(^{19}\) https://www.bbc.co.uk/news/uk-england-44039996
- **Respond to employment challenges** – ensuring that service design, delivery and partnerships can meet local employment, skills and welfare needs.

- **Meet housing needs** – councils and their partners developing affordable housing, to reduce rent arrears and prevent homelessness, and to reduce temporary accommodation by supporting homeless households.

- **Adequately fund the safety net** – both to ensure that local capacity and capability is available to help those affected by reforms; and that the social security system can support those in greatest need.

- **Communicate** – Signposting residents to local support services and targeting communications to groups most at risk.

- **Identify individuals most at risk** – for tailored interventions and advice.

- **Increase debt collection activity** – Some poor working age residents will be called on for council tax contributions for the first time.

6.11. The above can throw a great deal of work onto administrative and back office services, the very section of local government that has been most heavily cut by efficiency reductions.

6.12. As councils now have less funds to carry out proactive monitoring, often their first action will be a reactive intervention to some crisis event. This is illustrated for example, in the increasing number of looked after children across the country.

6.13. The committee will be aware that the number of looked after children (LAC) in England has increased from 54 per 10,000 in 2009 to 64 per 10,000 in 2018.


6.15. Many of our members report increases in mental health issues, drug use, knife crime, decreasing healthy life expectancy and homelessness, all of which point to residents increasingly slipping through the safety net of local preventative services and all of which increase demand on local crisis services while placing unnecessary pressures on other parts of government.\(^{22}\)

6.16. These trends are exacerbated by deep cuts in preventative services like:

- Youth Centres, (763 of which have closed since 2012)\(^{23}\)
- Substance misuse prevention
- Mental health support

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\(^{22}\) [https://www.unison.org.uk/content/uploads/2018/12/Youth-services-report.docx](https://www.unison.org.uk/content/uploads/2018/12/Youth-services-report.docx)
Family support services
Social isolation support
Preventative public health spending on issues like smoking and obesity

6.17. And they are increasing demand on costly crisis services like:
Safeguarding children and young people
Homelessness support
Antisocial behaviour
Substance misuse treatment
Mental health support

It is worth noting that 4 out of the 5 issues above are more prevalent in urban settings

6.18. It is also increasing pressures on more costly frontline services outside local government like the NHS, the Police force and the court system.

6.19. Furthermore it is showing no signs of slowing down. In a recent survey of 21 SIGOMA councils that responded, setting out what they were planning to cut moderately or severely:
95% said early years and youth clubs compared to just 45% of counties
85% said earmarked public health services like smoking cessation, sexual health, substance misuse compared to just 44% of counties
80% said children's services, compared to just 36% for counties

6.20. This illustrates not only the damaging impact of unbalanced austerity which has hit deprived, mainly urban areas hardest, but that austerity is by no means at an end for local government as a whole.

6.21. This is a false economy, storing up serious problems for the future and increasing not only costs on local government and the public purse, but also human costs for those households that slip through the net.

6.22. We therefore need to honestly assess, not only whether local government services are sustainable but also whether they are sufficient to support the type of society we want to live in.

6.23. The link between increased localised poverty and the necessity for extreme interventions is inescapable.

6.24. Government urgently needs to assess the impact of welfare reform on demand for local services. This should not wait until the next planned review in 2020.

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24 https://publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/40/4006.htm
7. **Impact of Funding Changes on Local Authority Spending**

7.1. According to the NAO, there has been a 32.6% real-terms reduction in local authority spending on non-social-care services, 2010-11 to 2016-17, and a 3.0% real-terms reduction in local authority spending on social care services over the same period as councils have sought to protect their most vulnerable residents.

7.2. The unbalanced nature of austerity and various settlement adjustments has meant that more deprived areas have been forced to cut non-care services sooner and deeper and have been much less able to protect social care, as shown in the graph below:

![Impact of Austerity on Core Service Expenditure 2010 - 2016](image)

7.3. This aligns with the conclusions of the Lloyds bank foundation, echoed by groups like Centre for Cities, the IFS and others that:

> "Due to the nature of central government withdrawal of funding, local authorities who were most grant-reliant (due to their limited capacity to raise revenue locally through council tax and business rates and greater need) have experienced the heaviest cuts."[^25]

7.4. It has severely weakened the financial sustainability of councils. As the NAO note:

- councils saw a £901 million overspend on service budgets by in 2016-17
- 66.2% percent of local authorities with social care responsibilities drew down their financial reserves in 2016-17
- 10.6% percent of local authorities with social care responsibilities would have the equivalent of less than three years’ worth of reserves left at current rates of spend[^26]

7.5. This situation has become so severe that CIPFA now estimates up to 15% of councils are now ‘at risk of financial instability’.[^27]


[^27]:
7.6. But there is another, perhaps more concerning side to the picture in the form of the removal and rationing of key services by councils which may not exhibit outward signs of financial failure, but are instead arguably exhibiting signs of what we might refer to as ‘service failure’ – whereby they are no longer providing services or no longer offering services of an acceptable quality.

7.7. Researchers from Glasgow University, quoted in a report by the Lloyds Bank Foundation, found that:

“Savings had largely been made up until 2015 using efficiency measures, but it was predicted retrenchment would increasingly be used to make the cuts necessary to stay within ever-decreasing budgets.”

7.8. They also found that strategies used by local authorities to reduce spending whilst maintaining a service, worth quoting here in full, included:

- “Reduction of services – reducing the number or available hours of services such as libraries and children’s centres. Remaining services may have reduced staffing levels or ‘deprofessionalised’ services with more volunteers or assistants.”

- “Reducing the universality of certain services, for example no longer providing discretionary transport services for elderly people to reach day centres (as reported in Fitzgerald et al, 2014), or the removal of subsidised access to services, such as subsidised bus transport for young people. This can happen in both statutory and non-statutory services depending on the precise specification of the legislation.”

- “Increasingly targeting access to provide “proportionate universality”, for example, proposals in Newcastle for adult social care to be reduced to critical care needs only, and eligibility thresholds for playgroups and Sure Start.”

- “Introduction of charges for previously free services such as bulky waste collection or child play groups.”

- “Declining face-to-face support by moving to online and telephone-based advice.”

7.9. These coping strategies have been more pronounced in those areas that have seen the deepest cuts, with the Lloyds Bank foundation noting that: “Almost the entire burden of the reduction in spending on disadvantage has been concentrated in the 20% most deprived councils… with almost all reductions in spending on disadvantage (97%) happening in [these] council areas”.

7.10. This has resulted in a general move from preventative work to more costly crisis support because councils have run out of alternatives in order to meet their most basic statutory duties.

7.11. This is perhaps most pronounced in housing services, as shown in the graph below.
7.12. This pattern has coincided with a reported 165% increase in rough sleeping since 2010 and significant rises in homeless deaths on our streets. The regional patterns of these trends suggest that many of the areas we represent are among the worst affected.

7.12. Appearing before the Commons’ Public Accounts Committee, MHCLG permanent secretary Melanie Dawes has previously said: “Local government is sustainable if the amount of resources available to it can deliver the statutory services which it is required to do.”

7.13. However, across the country we can see that councils simply providing the statutory minimum is not sustainable, for a number of reasons.

7.14. First, non-statutory services like Sure Start and Early Years Provision and Youth Service arguably helped to keep demand for statutory services in check.

7.15. The table below shows total cuts in youth service spending according to Unison.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>£62m</td>
<td>£137m</td>
<td>£41m</td>
<td>£24m</td>
<td>£85m</td>
<td>£38m</td>
<td>£4m</td>
<td>£6m</td>
<td>£3m</td>
<td>£400m</td>
</tr>
</tbody>
</table>

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30 https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsbycauseofdeathofhomelesspeoplengeandwales/localauthorityestimates2013to2017
31 https://www.lgcplus.com/politics/finance/melanie-dawes-sustainability-is-defined-as-statutory-services-only/7026903.article
7.16 These services gave vulnerable young people a place to go. They provided employment, training and education, helped deal with potential mental health issues, helped prevent alcohol and substance abuse, as well as tackling crime and anti-social behaviour.

7.17 This likely helped ease demand, not only on other more costly council services, but also, outside the sector, eased burdens on the police force and NHS.

7.18 While it is difficult to draw a direct causal link, the decline of these youth centres has conspicuously coincided with sharp spikes in issues like knife crime. Scotland has also used youth centres as a key part of their successful solution to tackle knife crime.33

7.19 At the same time, services like Business Support and Tourism that previously helped to catalyse local economic growth have had to be cut back. This means that despite rising demand, councils may not have as many levers at their disposal to help boost local tax revenue.

7.20 Second, though councils have protected social care services more than any other service, and while statutory services can’t be cut to the same extent as non-statutory ones, they can and have been rationed by authorities of all types.34

7.21 And in services like social care, those that would previously have been eligible for early intervention now face more costly crisis intervention. This can also result in inadvertent and inefficient cost shunting towards more costly NHS services.

7.22 These cuts also have economic impacts. According to Unison, between 2012 and 2019, 4,544 jobs were cut from local authority youth services and at least 763 youth centres have closed.

7.23 A similar story has played out across most councils and most departments, with an investigation by the Local Government Chronicle revealing that councils have collectively spent almost £4bn making 223,000 staff redundant since 2010.

7.24 This has knock-on effects not only for the local economy but may also have had an impact on demand for council services if those workers are unable to find

33 As reported here https://www.bbc.co.uk/news/uk-scotland-45572691
employment elsewhere. It also results in a loss of valuable expertise and agility to react to changing situations, such as Brexit for example.

7.25 Third, councils are currently drawing down on reserves. According to the National Audit Office, 66.2% percent of local authorities with social care responsibilities did so in 2016-17.\(^{35}\)

7.26 The NAO also found that 10.6% percent of local authorities with social care responsibilities would have the equivalent of less than three years’ worth of reserves left if they continued to use their reserves at the rate they did in 2016-17.

7.27 Use of reserves is clearly unsustainable in the medium term and their increased use must be a cause for concern for continuity of essential services.

7.28 Fourth, the downward spiral of deteriorating services and increasing demand opens councils up to the very real risk of legal challenge and therefore further costs of which there are abundant examples.\(^{36}\)

7.29 Service and financial failure of individual councils will inevitably be accompanied by accusations of poor governance and mismanagement but the increasing frequency of these should be taken as warning that councils are reaching the limit of their ability to respond to real term funding cuts.

7.30 Another straw in the wind is Councils using capital disposals to finance redundancy costs rather than (as Government would presumably wish), to invest in income raising initiatives, again widely reported.\(^{37}\)

7.31 For these reason’s the Government’s policy of austerity which has, among its aims, the improvement of efficiency in local government, is actually inducing the exact opposite.

7.34 So, while authorities are still technically meeting their statutory duties, the fact, for example, that homeless deaths were 9 times higher in deprived areas\(^{38}\) suggests that we are experiencing a de-facto collapse of service provision. It also suggests that this collapse is many times more acute in the poorest parts of the country, that have seen the greatest cuts.

7.35 This is creating a cycle of ever increasing false economy in which reductions in preventative work contribute to increasing demand, which in turn eat into

\(^{38}\)https://www.bbc.co.uk/news/uk-england-47357492
available funding for further preventative work as councils are reduced to firefighting crisis support.

7.36. A recent survey by the New Local Government Network found that:
“Councils estimate they are currently spending 28 per cent of their resources on prevention. However, when asked to estimate what they would ideally be spending on prevention, the figure rises to 47 per cent. Plugging this gap would require an extra £8.7bn funding for local government.”

7.37. This lack of requisite funding to keep demand in check and deliver the basic services residents expect means the public are increasingly paying more for poorer services as demand for those services increases.

7.38. This is false economy. According to former NAO Comptroller and auditor General Amyas Morse:

“At the beginning, local government responded with new, more efficient ways to deliver services. However, over time this has shifted from ’more for less’ to ’less for less’."

“This is because, during this progressive reduction in funding, I have not seen any evidence-based effort to reconcile funding to local needs.”

7.39. According to the Lloyds Bank Foundation, a 2009 study found “a net financial benefit of £3.4bn per year relative to a £1.6bn investment for the Supporting People programme”.

7.40. This is one illustration of the point often made that by underfunding local government, Treasury is making the poorest use of scarce resource.

7.41. Total funding to local government as a whole must be increased by at least £8 billion to shore up preventative services and keep demand in check.

7.42. Funding for deprived areas must be urgently increased through a greater recognition of the impact of deprivation on the cost of service delivery in the fair funding formula and through dedicated grant funding to support preventative services in the most deprived areas.

8. Funding in 2020 and Beyond

8.1. Due to increasing demand for services and continuing cuts to grant funding, councils already face a funding gap.

8.2. In their response to the December 2018 provisional settlement the LGA estimated an annual funding gap of £3.2 billion in 2019-2039. In their analysis for

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the Spending Review they predict this to rise to £8 billion by 2024-25 on the current trajectory.\(^{40}\)

8.3. The Ministry has not published estimates of the gap (or surplus!) facing authorities, nor yet the cost of providing services, or even what those services should be. This gave cause to the following recommendations from the 2018 Public Accounts Committee:\(^{41}\):

*The Department should write to the Committee by May 2019 setting out how services where the level of provision can be determined locally feature in its assessment of financial sustainability, how they should be funded, and how it takes account of the fact that the loss of such services may have longer term cost implications for required statutory services.*

and that

*The Department should write to the committee by May 2019 setting out a step-by-step model of how it assures itself that the sector is sustainable:*

- In relation to the Department’s ‘top-down’ analysis for the remainder of this Spending Review period, this should include a detailed account of how adequate funding need has been defined and calculated including assumptions over service levels (including both statutory and discretionary) and demand projections.

- In relation to the Department’s ‘bottom-up’ analysis looking at the sustainability of individual authorities, it should set out what quantitative and qualitative evidence is used in its analysis, the framework in which this information is used, and the process by which this information is combined to produce a conclusion.

Where conclusions are reached based on judgements in either the top-down or bottom-up methods, the Department should detail how they are made, what the criteria are and to what extent these judgements are subject to independent scrutiny to ensure quality and consistency.

8.4. The PAC also recommended that:

*The Department should write to the Committee by May 2019 setting out how its estimates for local authorities’ funding needs compare to the LGA’s forecast of a £3.2 billion funding gap in the sector by 2019-20 and explain any differences.*

8.5. All of the above are critical issues to resolve before concluding analysis of future funding requirements in the Fair Funding review and Spending Review.

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\(^{40}\) [https://local.gov.uk/about/news/funding-black-hole](https://local.gov.uk/about/news/funding-black-hole)

\(^{41}\) [https://publications.parliament.uk/pa/cm201719/cmpubacc/1775/177505.htm](https://publications.parliament.uk/pa/cm201719/cmpubacc/1775/177505.htm)
8.6. We would only add that, within the average data, it is the poorest authorities that face the greatest gap due to their disproportionately high increase in demand and their weak local tax raising capacity, as illustrated in earlier sections.

8.7. There is abundant evidence that local government finances are being stretched beyond breaking point including:

- National Audit Office report, Financial Sustainability of Local Authorities 2018
- Local Government Association reports “Future Funding of Local Authorities”
- The introduction of CIPFA Financial Resilience Index
- The 2018 Public Accounts Committee inquiry into the Financial Sustainability of local authorities


8.9. Whilst it is right and proper that the funding should have been made available, it must be recognised for what it is; an emergency allocation that was as much about supporting hospital emergency and in-patient services as a recognition of the demands on local authorities.

8.10. Authorities will make the best possible use of these funds but, given the circumstances of their allocation, cannot be expected to use them in the most cost effective and efficient manner when compared to a predictable and proportionate share of a funding total that is adequate for the service being provided.

8.11. This is not just our own opinion but also that of the 2018 Public Accounts Committee, who recommended:

*The Department should work with local authorities to collect and analyse evidence on the impacts on value for money and the implications for service users of providing funding through one-off funding streams announced late in the budgetary cycle rather than through long-term funding arrangements.*

*The Department should, within 12 months, write to the Committee detailing the findings from this work and how it will use this evidence base to ensure that both its own funding schemes and those of other departments are structured and announced in a way that delivers maximum value for money.*

8.12. This time horizon is too long and the issue needs to be fully addressed within the time frame of the Spending Review and Fair Funding Consultation

8.13. Local authorities know little about funding beyond 2020 other than that, at 1 April 2020, they will move to 75% business rate retention, rather than 100% as set out in the now failed 2018 Local Government Finance Act.
8.14. Based on current rate estimates this would equate to retaining a further £6.5 billion of funding locally.

8.15. Government have been clear however that this will not be additional. Under “fiscal neutrality” principles, authorities will lose other funding or take on new responsibilities.

8.16. Proposals from the consultation are loss of Revenue Support Grant (at £2.3 billion in 2019-20) and Public Health Grant (at £3.1 billion in 2019-20), though the values of both of these beyond 2019-20 are unconfirmed.

8.17. With only another £1.1 billion of “other” funding needed to match the funds added by 75% rate retention, local Government is already facing the continuation of a funding Settlement that is unsustainable in the medium term.

**Future funding formula**

8.18. Proposals from MHCLG do not auger well for poorer authorities

8.19. There are assumptions built into the most recent Fair Funding review announcements that are not supported by, and even run counter to, the available evidence.

8.20. This risks the credibility of the review with the sector and would perpetuate the now well established practice of shifting the greatest burdens onto the poorest areas for a long time to come.

8.21. Most concerning among them are the omission of deprivation from the ‘foundation formula’ and the inclusion of rurality measures in an Area Cost Adjustment.

8.22. **Omission of deprivation from the foundation formula**

The foundation formula groups together services that the Government argues are little influenced by cost drivers beyond population, this includes services like homeless.

8.23. **Weighting for rural services and no allowance for costs of density in cost weighting**

The Area Cost Adjustment is an adjustment which they propose to apply to all service specific formulae with the exception of legacy capital finance. The inclusion of a rural sparsity adjustment in all service specific formulae is also concerning because there is no independent evidence to support it. In fact independent research commissioned by MHCLG produced by an organisation they describe as “experts in their field” and who are currently overseeing the development for both the adults and children’s social care specific formulae. This is referred to in section 3.18 above.
8.24. When presented with an FOI for analysis that has led to their conclusions, MHCLG have refused on the grounds that the consultation was still underway and such disclosure would undermine the ability of civil servants to advise ministers.

8.25. The omission of deprivation is perhaps even more concerning because the latest consultation document includes evidence that it has a notable influence on foundation formula services. It is also concerning because an apparently deliberate lack of transparency and flawed analysis has lead the Government to the conclusion that “deprivation was not shown to be a major cost driver for the services included in the Foundation Formula”.

8.26. Independent experts like the IFS agree with our view, arguing:

“The rationale for basing the Foundation Formula (for services such as waste collection, libraries, parks, housing, planning and central administration) on population only is weak: the statistical results cited by the MHCLG are not strong enough to support such a decision. In particular, the fact that population explains the vast majority of variation in spending and factors like deprivation explain very little is unsurprising: population varies so much between councils that it is inevitable that it will drive nearly all differences in overall spending levels. This would be true even if factors like deprivation are highly significant drivers of variation in spending need per person.”

8.27. And the LGA notes:

“The Government has provided some evidence on the cost drivers tested and the expenditure data used. However, some important details are missing in some cases. This includes, on a case-by-case basis, reference years, clarification of whether total spending or spending per head was measured, and whether spending was deflated for area cost differences, and how regression/correlation analysis was used and its results… this consultation must be accompanied by a much more detailed technical note about the exact evidence used to arrive at each view on the relative needs assessment.”

8.28. This is deeply concerning to the mostly deprived urban areas we represent because, as the IFS also note:

“A population-only Foundation Formula would lead to lower assessments of needs – and hence lower funding – for deprived (often inner city) councils than both the current formula and an updated formula that included deprivation. It would lead to higher assessments of needs – and higher funding – for less deprived (often suburban and rural) councils.”

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43 https://www.ifs.org.uk/publications/13922
45 https://www.ifs.org.uk/publications/13922
8.29. This is the opposite of a fair funding formula and would diminish rather than improve its capacity to accurately identify and sustainably fund variations in relative need.

8.30. So, in terms of how we can better understand funding needs at a local level, there is perhaps no better place to start than holding the Government to a strictly and transparently evidence based approach to the ‘Fair’ Funding Review – something we do not feel has been achieved so far.

8.31. In accordance with the PAC recommendations and the LGA analysis, Government must recognise that additional rate retention cannot come with additional responsibilities.

8.32. It is also essential to understand that a redistribution of the total tax take is essential in order to match demand for services. It must be publicly acknowledged that the profile of the main consumers of council statutory services does not reflect the profile of funding as currently proposed.

9. Income raising
9.1. Both Business Rates and Council Tax are facing calls for review from Councils and Businesses.

Council Tax

9.2. Council Tax is agreed by all to be a regressive tax with some of the poorest communities facing the highest Council Tax Charge and Vice Versa.

9.3. This is due to a combination of factors, the most important of which are:

- A failure to carry out a national revaluation of domestic properties. Bandings are currently based on property values at 1 April 1991
- An inequality in grant funding and other income that has allowed some wealthy areas to charge very low levels of tax
- A national relief system that is inflexible to local circumstances.

9.4. The regressive nature of the tax and its impact can be seen in the following chart which shows average council tax per property divided by average property value for each council.

9.5. The graph shows that in 2018 there were 28 Councils where the average tax was over 0.7% of property values whilst there were 21 authorities where Council Tax was less than 0.3% of property values.
9.6. The analysis becomes even more interesting when one discovers that all of the 21 low ratio councils are London authorities.

9.7. Many of the highest ratios are from some of the poorest metropolitan authorities including Redcar and Cleveland, Stockton on Tees, Blackpool, St Helens, Rochdale, Oldham and Stoke on Trent.

9.8. It is also a matter of Concern that, in their fair funding proposals, MHCLG do not intend to recognise the different levels of Council Tax support in assessing relative resource. It must be clear that authorities with a greater benefit dependent population will face a greater pressure in assessing and collecting Council Tax from those individuals.

9.9. The system of Council Tax, Council Tax reliefs and Council Tax support needs reviewing to ensure that all authorities are levying Council Tax in proportion to their current property values and are not suffering locally for national relief schemes. The ability of some authorities to raise greater Council Tax must be fully recognised by adjusting funding allocations

**Business Rates**

9.10. The Business Rates system has been criticized from various sources for its inequity and complexity.

9.11. Whilst members appreciate the desirability and simplicity of a property based tax, they sympathise with high street retailers who feel they are bearing an unfair burden of tax by comparison to online retail.

9.12. We would welcome a dialogue with Government on how best to move towards a more equitable taxation system that did not impact on the necessary quantum of taxation.
9.13. This highlights one of the problems of the rate retention mechanism in that local authorities are no longer disinterested in the levels of taxation raised locally.

9.14. In one sense this works as Government no doubt wish it to, acting as a lever on authorities to grow rates locally.

9.15. However it also puts authorities at risk of losing funding due to factors beyond their control, not least central government policy initiatives for tax discounts and incentives.

9.16. This has been illustrated in various ways since 2013, for example by:

- Claims for Business Rate Reliefs from Health Care Trusts
- Fiscal Impact on Councils of Academy conversion by Schools
- High profile business failures such as Teeside Power Station
- Rates avoidance by large companies such as Virgin Media
- Abuse of charitable relief rules to avoid tax.

9.17. Members ask, which other government department has to bear the direct local impact of fluctuations in national taxation. Members also point out that retention of rate growth does not correlate to many of the activities they pursue to improve growth and employment prospects in their authority. One such example is the encouragement of College and University presence in their towns and cities which attract neither Council Tax nor Business Rates yet carry a high servicing cost.

9.18. Finally, SIGOMA members in particular are concerned at the likely further increase in the prosperity gap between poor and wealthy authorities that will arise from the proposed growth retention scheme from 2020.

9.19. As predicted, business rate retention so far has disproportionately benefited wealthier parts of the country at the expense of poorer ones. The table below shows the proportion by which different authority types have increased their share of needs by business rate growth since 2013.

<table>
<thead>
<tr>
<th>Authority Type</th>
<th>13-14</th>
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<th>15-16</th>
<th>16-17</th>
<th>17-18</th>
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<tbody>
<tr>
<td>Shire Districts</td>
<td>34%</td>
<td>20%</td>
<td>36%</td>
<td>10%</td>
<td>37%</td>
</tr>
<tr>
<td>Metropolitan Districts</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>London Boroughs</td>
<td>3%</td>
<td>5%</td>
<td>6%</td>
<td>-2%</td>
<td>5%</td>
</tr>
<tr>
<td>Shire Counties</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Unitary authorities</td>
<td>3%</td>
<td>2%</td>
<td>8%</td>
<td>2%</td>
<td>7%</td>
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</tbody>
</table>

9.20. The system has overwhelmingly benefitted shire districts. This disparity is set to grow under the proposed new system as the cap on growth, the “levy”, is set to be removed or reduced and it is planned to allow growth retention beyond resets.
9.21. Authorities with a low business rate relative to their need ("low geared" authorities) will always be at a disadvantage under this growth retention system.

9.22. We have asked MHCLG to consider weighting the system to recognise the disadvantage of low geared authorities, or to retain a robust levy system to ensure that growth is retained in proportion to need. This would also have the benefit of providing a more equal incentive to all authorities, regardless of their ‘starting position’, thus aligning with the Government’s stated aims for the policy.

10. **Alternative Funding**

10.1. Members are happy to engage on alternative funding mechanisms including local income or business tax but consider these outside the scope of our interest group.

10.2. Members re-emphasise that their over-riding concerns are for a fairly distributed share of a tax that is fairly levied across the country.

10.3. At the heart of this issue is the fact that the overwhelming majority of expenditure by authorities is on those least able to pay for services, whilst individuals in the best position to contribute towards funding services are those, by and large, who least need the most costly services.

10.4. The proportions of these two groups within local authority populations vary significantly, which in turn affects whether a given council is in a position to be a net contributor. The issues that drive the most acute demand for services are complex, often stemming from historical factors well outside a council’s control.

10.5. In current financial climate it is understandable that Government wishes councils to make every effort to contribute to and benefit from local growth.

10.6. Yet at the same time authorities are discouraged for borrowing for “risky” investment purposes.

10.7. This creates a narrow band of acceptable money raising activities which councils can undertake which will not be perceived as an additional tax.

10.8. At the same time, not all Councils are in a position to benefit equally from income such as car parking and those that are, naturally wish to retain this income without it affecting their share of other grants, hence there is no relief on the burden of other taxes or any indirect benefit to less wealthy authorities.

10.9. Our members are willing to engage and to keep an open mind on alternative funding mechanisms. At a local level they are pursuing alternative methods of raising funds but the options are limited and authorities must of necessity remain risk averse when dealing with taxpayers funds.
11. Devolution

11.1. Members will respond with their own views on the benefits or otherwise of devolution.

11.2. It is fair to say that there is a high degree of scepticism in many of our smaller towns about whether existing devolution agreements are devolving powers down to local authority level for every authority and therefore about plans for further devolution based on existing models.

11.3. Members are also sceptical about the increasing use of LEPs as a vehicle for allocating devolved funds. LEPs are unelected and unrepresentative bodies. They have an important role in helping to shape the economic environment of regions but are unelected and therefore unaccountable to local people for their decisions.

11.4. Our members can see that there may be an argument for devolution if the total of funding is adequate for local government as a whole and with a more accountable governance structure.

11.5. Devolving taxes will not in itself make all authorities sustainable, there is likely to be a need for redistribution at some level.

11.6. For example, the IFS showed the variation, in terms of share of the national average, that a flat rate local income tax would raise.