

State of Local Government Finance Survey 2018

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LGiU
the local democracy think tank

THE MJ

About the State of Local Government Finance Survey

LGiU and The MJ have run the State of Local Government Finance Survey every January since 2012 to coincide with councils setting their annual budgets. The results give a snapshot of the key pressures facing councils and their ideas for the future.

The survey was sent to senior decision-makers at each of England's 353 councils (Council Leaders, Chief Executives, Cabinet Members for Finance/Resources and Directors of Finance/Resources) between 10th and 31st January 2018.

This year we received 132 responses from 113 individual councils, meaning that a third of English councils are represented in the results. We received responses from a broad cross-section of councils, encompassing county, district and unitary authorities, a mixture of political control, and all regions.

The survey questions covered topics including income sources, confidence, service level spending, funding system design and thoughts on future policy.

Executive Summary

- **Nearly all councils in England plan to raise council tax (95%) and increase charging (93%) to make ends meet this year; and two thirds of councils will be forced to dip into their reserves**
- **80% of councils fear for their financial sustainability** amid growing concern that Northamptonshire CC is the tip of the iceberg for local government
- Councils face **continued uncertainty about the source and level of funding post-2020** as political turmoil in Westminster has delayed crucial decisions on business rate retention, the new funding formula and devolution
- Despite **three quarters of councils managing to sustain the quality of the frontline services** over the past year, evidence suggests that their 2018/19 budgets will see **activity further reduced in several key community services** including parks and leisure (53% of councils), adult social care (40%) and youth centres (34%)
- **Children's Services is now the top immediate pressure** for councils, above Adult Social Care for the first time in at least three years, suggesting that councils are no longer able to shield these services from the worst of the ongoing budget cuts
- **Adult Social Care remains the top longterm pressure** for councils, followed by Housing and Homelessness
- Local government is united in agreement about how to resolve this crisis, with **over two thirds calling for a commitment to maintain 2017 levels of funding for 3 years** in order to aid medium term financial planning
- Councils are also calling for **assurances that government will cover costs associated with changes to centrally-set business rate policy**
- Though long-awaited, the government's Fair Funding Review will not address the fundamental issues facing the funding system and risks irrelevance in the face of mounting structural pressures: **councils are calling for a formal consultation on how local government financing will work going forward**

Forewords

Jonathan Carr-West, Chief Executive of LGiU

Over the last 7 years, the State of Local Government Finance Survey has become an essential bellwether for issues affecting local communities and an invaluable opportunity for councils to share their experiences. This year is no exception.



Results from the 2018 survey show that councils are on the edge. They are for the most part holding services together (though a significant minority are not). But they can only do this this by raising council tax, increasing charging and draining their reserves.

The system is unsustainable and needs far more fundamental reform than is presently on offer. It's simply not acceptable that we don't know how local government will work post 2020.

Councils are calling for assurances around funding for the next three years and for a fundamental redesign of the finance system. At present government is offering neither. That has to change.

Heather Jameson, Editor of The MJ

Austerity has pushed council budgets to breaking point and they just can't take any more. They have faced reduced budgets and increased demand for services – the sums just don't add up.



Last week saw the first local authority issue a freeze on its spending due to its cash crisis and it is not likely to be the last. The rising cost of adult social care and its impact on the NHS is well documented, but now children's services are at risk.

The Government needs to rapidly rethink its funding of local authorities before services – including those for the elderly and vulnerable children – start to crumble completely.

Introduction

The annual State of Local Government Finance Survey gives a snapshot of the pressures facing councils. We ask the most senior figures in each council to tell us their plans for the coming year in the run-up to setting their annual budget. This year 132 council leaders, chief executives, cabinet members for finance and finance directors took part, representing a third of all English councils.

The results help us to assess the impact of policies and highlight areas that are of current or future concern. As an independent, cross-party membership body we hope to bring together the voice of the sector and contribute to strength of our local democracy.

What's happening in local government?

Local government is responsible for a dizzying array of essential community services, visible and invisible, universal and targeted – from care homes to business support, potholes to social services, education to leisure centres. But if you ask the average person on the street what their council does, they'll likely reply, 'Collecting my bin.'

If you were feeling particularly cruel, you could ask the poor soul how their council is funded, to which they would probably hesitantly reply, 'Council tax?' And who could blame them for this assumption? Most of those working in the sector struggle to wrap their *own* heads around the complexities and vagaries of the various grants, tariffs, top-ups, funding formulas and local business rate shares.

But this (somewhat glib) example strikes right to the core of the challenge that councils face in articulating their current financial situation with the urgency it requires.

When people see their council tax go up and the quality of their services deteriorate, they rightly ask questions. But in reality council tax only accounts for 15% of local authority income: over half comes in the form of grants from central government*.

However, local authority grant income has plummeted by £16bn since 2011*, first because of wider public sector budget cuts after the financial crisis, and then as part of government's plan for councils to transition from grant funding

*Based on the latest available figures from DCLG, 2015-16 ⁵

to relying on local business rate income by 2020 – the implementation of which has been severely delayed.

As it stands, councils are facing the 2020 cliff-edge without a clear idea of how they will be funded afterwards or how much money they will have.

Why this work matters

The real world impact of delaying these seemingly technical decisions is that, across the country, libraries and parks are closing down, the elderly and disabled can't access basic care, vulnerable children aren't be supported and the streets are dirtier and more dangerous.

With limited borrowing powers and restrictions on types of investment, council tax and charging are two of the only mechanisms left over which councils have some control, which is why we are seeing over 90% of councils increase both this year. This is not a sustainable solution.

Each council has approached these challenges in different ways according to the needs and wishes of their residents, so it can be difficult to see the overall impact of central cuts to council income. This survey helps us to shine a light on the cross-sectoral challenges in order to move the conversation back to the national scale.

It would be easy for this to remain a technocratic debate among those in the sector, but the consequences of slow or ineffective decisions is potentially disastrous and deserves greater urgency and a wider audience.

This survey is the first output from LGiU's Local Finance Taskforce 2018, a local authority-led project to raise the profile of council funding issues and to move the agenda forward. For more information visit: lgiu.org.uk/policy-theme/local-finance-taskforce

Current situation

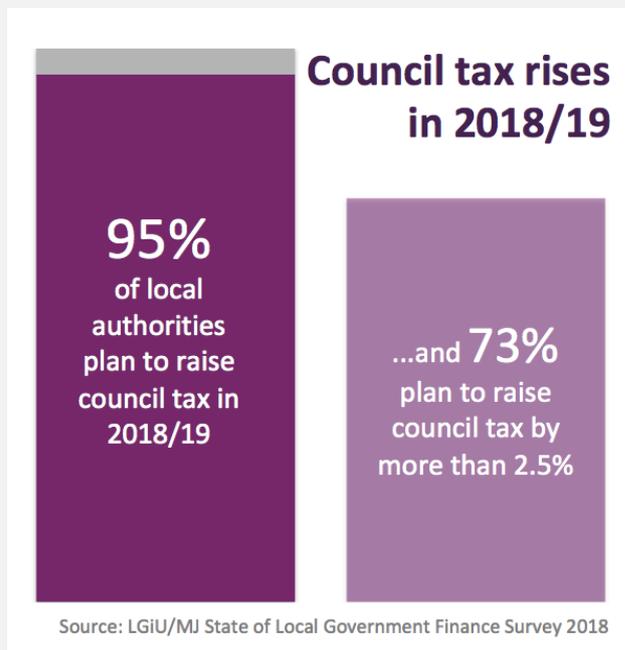
Confidence

Confidence in the sustainability of the local government finance system is still very low – as in 2017, 80% say they are not confident. This opinion is held across the sector, spanning political boundaries, council type and region.



8 in 10 councils lack confidence in their financial sustainability

Source: LGiU/MJ State of Local Government Finance Survey 2018



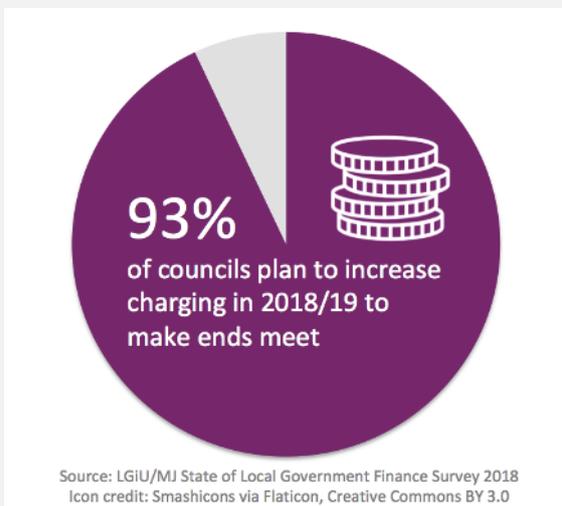
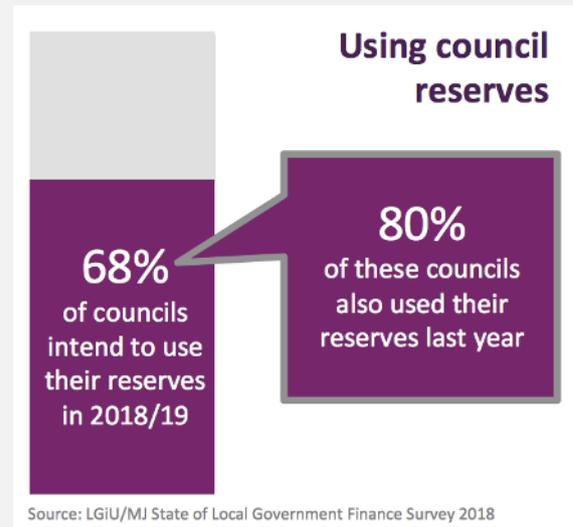
Source: LGiU/MJ State of Local Government Finance Survey 2018

Council tax

95% of respondents said they would be raising council tax in their area this year, the highest proportion since the survey began in 2012. Three quarters said they would be raising council tax by more than 2.5%. Only one respondent said their council would be reducing council tax.

Reserves

Almost three quarters of respondents (68%) intend to use their reserves this year; of these, 80% used their reserves last year as well.



Fees and charges

93% of respondents plan to increase fees and charges this year to balance their budget. Areas that will see new/increased charging include: waste, planning, parking, social care and home care, bereavement, burial/cremation, and meals on wheels.

Other sources of income

9 in 10 councils (89%) now consider exploring other sources of income a high priority or essential. Sources that councils are considering include:

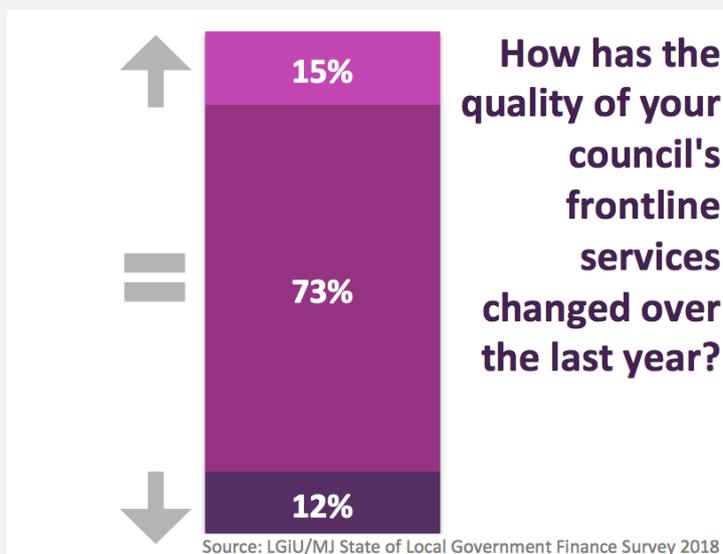
- Commercialising council services (76% of respondents)
- Local commercial property developments (76%)
- Local housing developments (76%)
- Purchasing investment properties (66%)

In order to finance these projects, over 90% intend to borrow from the Public Works Loans Board. Other finance sources include capital markets (13%), other local authorities (18%), private investment (20%) and crowdfunding (7%).

Pressure on local services

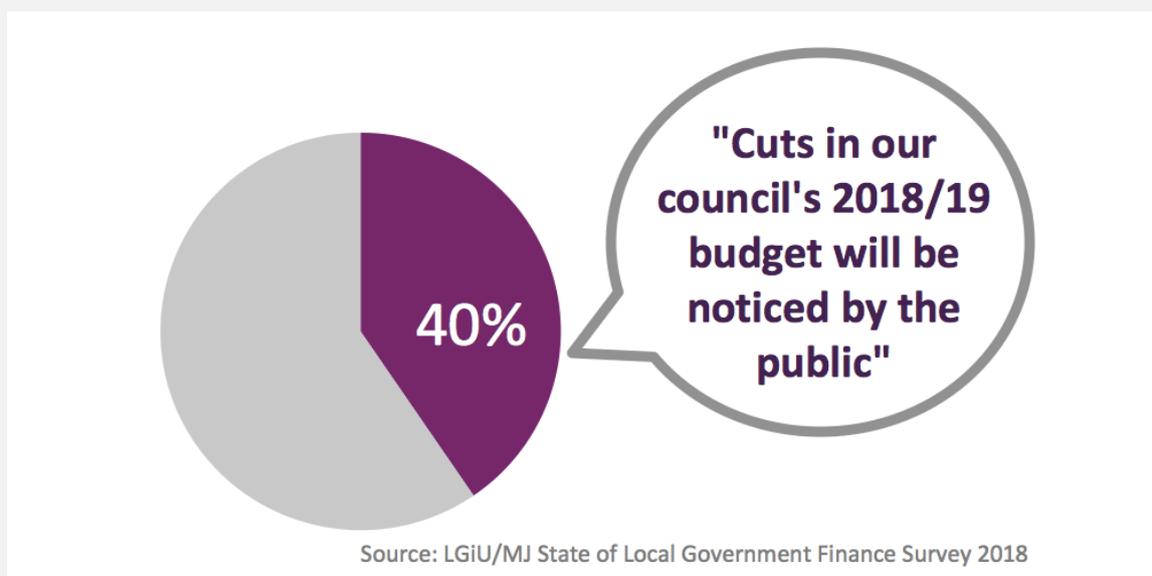
Quality of frontline services

Three quarters of councils (73%) tell us they have managed to sustain the quality of frontline services over the past year, despite the financial challenges they face.



However, 40% of respondents believe the cuts to frontline services this year will be noticed by the public. Councils will be forced to reduce activity in a broad range of service areas in order to make ends meet:

- Parks and Leisure facilities and Business Support services topped the list, with half of respondents saying they would be reducing activity.
- Over a third of respondents say they will also have to reduce activity in these service areas: Arts and Culture, Adult Social Care, Children's Services, Youth Centres, Libraries and Highways/Transport.

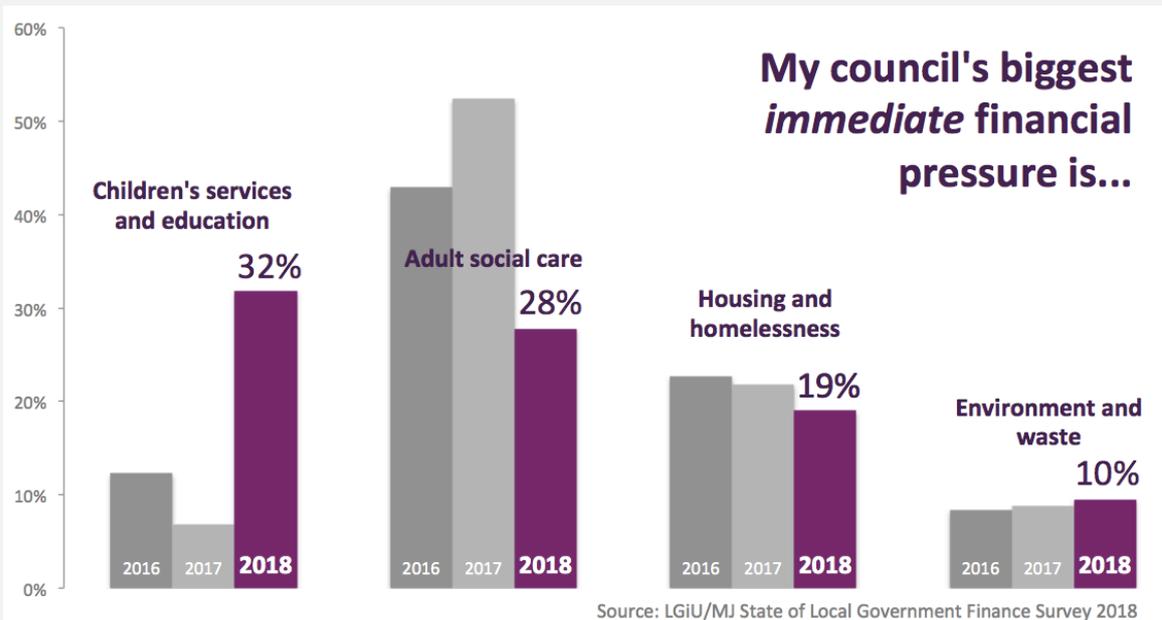


Children's Services and Education

Children's Services is now the most immediate pressure for councils, ahead of Adult Social Care for the first time in at least 3 years (since our records began).

This is likely a result of a combination of factors. After 8 years of diminishing local authority budgets, councils are no longer able to shield Children's Services from the worst of the cuts. At the same time, demand is increasing due to rising numbers of child protection enquiries, cuts in the Early Intervention Grant, Universal Credit among other things. It could also indicate that the extra £2bn social care funding announced in March could be temporarily easing pressure in this area such that councils can focus on Children's Services.

Over a third of respondents indicated that their council would be reducing activity in Children's Services and in their Youth Centres because of financial constraints.

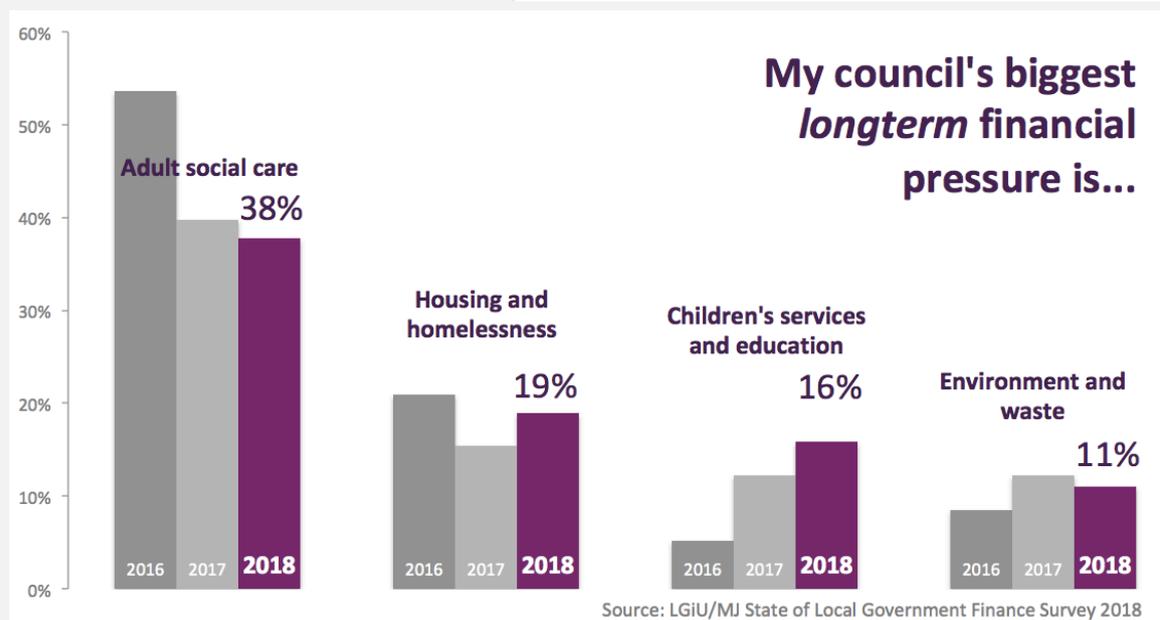


Adult Social Care

Adult Social Care remains the greatest longterm pressure for councils, with 38% of respondents putting it top of their list. When looking only at those councils with direct responsibility for social care, this rises to two thirds.

Moreover, 40% of respondents expect to see a reduction in their adult social care activity this year due to financial constraints.

Although the announcement of the £150m Adult Social Care Grant for 2018/19 was welcomed by the sector, the fundamental resourcing issues remain. We asked councils what they would like to see to help fix the system: over half would like to see a concerted effort to integrate health and social care across the country and a quarter support the idea of a ringfenced central grant for social care.



Housing and Homelessness

Housing and Homelessness is the second most common longterm pressure after Adult Social Care, with 19% placing it top of their list. Among lower tier authorities (which do not have direct responsibility for adult or children's social services) it is the number one immediate *and* longterm pressure. One in ten councils expect to reduce homelessness support activities this year as a result of budgetary constraints.

In order to ease the pressure on housing, councils are calling for extra powers and flexibility. We asked councils what changes were needed to support this goal and these ideas had the support of over three quarters of respondents:

- Allow councils to charge council tax on undeveloped land with planning permission (90%)
- Introduce “use it or lose it” powers to revoke planning permission for stalled developments (82%)
- Raise (80%) or remove (63%) the Housing Revenue Account cap
- Additional funding for the accompanying infrastructure like roads and schools (79%)
- Ensure councils can keep 100% of right-to-buy sale proceeds (77%)

Community services

As a result of financial difficulties, councils are planning to make cuts to many of their core community services.

Half say they will be reducing Parks/Leisure and Arts/Culture activities this year. A third intend to make cuts to their library service and a quarter will be reducing spending on local Citizen's Advice Bureaus.

This signals that councils are having to prioritise acute and statutory services in order to balance their budget, meaning that these types of “non-essential” or preventative community resources will be adversely affected.

Economy and business

We asked councils what they see as the main barrier to economic growth in their region: poor transport infrastructure was by far the biggest barrier, cited by 32% of respondents from across the country. Others cited a lack of inward investment (15%), a lack of commercial space (14%), a lack of needed skills (13%), a lack of suitable jobs (10%) and a lack of suitable housing (10%) as their main barriers to growth.

However, due to budgetary constraints, half of respondents said their council would be reducing their Business Support activity, a third would be reducing Highways and Transport work and a fifth said Regeneration projects would be scaled back.

A lack of clarity about the how much of the proceeds of local growth councils can expect post-2020 (due to delayed decisions on business rate retention) means that councils are prioritising immediate need over investing in future local economic growth because they can't guarantee they will see the returns from their investments.

The way forward

The uncertainty facing councils in terms of future funding is damaging their ability to forward plan. There is an urgent need for action to remedy this situation.

The survey shows that local government is united in agreement about how to resolve this crisis, with over two thirds calling for a commitment to **maintain 2017 levels of funding for 3 years in order to aid medium term financial planning**. They are also calling for **assurances that government will cover costs associated with changes to centrally-set business rate policy**.

With the impending roll-out of 75% Business Rate Retention (as well as the 100% Business Rate Retention pilots), there are still many unanswered questions about how the new system will work.

We asked councils to rank their concerns about how it will impact their authority. **'Volatility of business rates as a source of income'** was most common concern, with half of respondents placing this first or second. **'Lack of clarity about the future shape of the policy (reset periods, redistribution, etc)'** and **'Pressure on demand-led services like social care'** were also common concerns, with just under half of respondents placing them either first or second.

Local government's asks for 2018

1. A commitment to maintain at least the 2017 level of funding for at least 3 years, in any form (71%)
2. Assurances that government will cover the costs to councils associated with changes to centrally-set business rate policy (68%)
3. Remove requirement to hold a referendum on council tax rises above a certain threshold (62%)
4. Full roll out of 75% business rate retention, not just in pilot areas (57%)
5. A formal consultation on the options for the future funding system (52%)
6. An indication of the intended direction of adult social care policy, in order to unlock public and private investment in a creaking care market (52%)
7. Clarity about next steps for devolution and business rate retention so that they can plan post-2020 (51%)

Looking further ahead

The steps outlined in the previous section would go a long way towards getting councils on a steady financial footing in the short term, but there remain several fundamental systemic issues that need addressing to secure their future.

We asked councils to prioritise these challenges. These were their top choices:

1. Redesigning business rate system to make it fairer (65%)

It is widely accepted, by the public and private sector alike, that the business rate system is flawed and unfair in several respects. If local authorities are to become reliant on this form of taxation for a significant portion of their income, this must be fixed or we risk creating skewed incentives and stunting economic growth.

2. Health and social care integration (52%)

This policy was supposed to be pursued as part of the devolution agenda but as the devolution deal negotiations have stalled, health and social care integration has been sidelined in most parts of the country. However, the survey shows there is still strong support for this to go ahead.

3. Revaluing council tax bands (49%)

The current council tax banding system is based on property values from 1991. Under this system, the ratio between the bottom and top rates of bands remains about 1 to 3, far lower than the current spread of house prices. This means that many people are under or over-paying their council tax, and research from the IFS suggests this disproportionately affects low income households. Successive governments have shied away from the task of revaluation, but under the current system council tax intake is bound more to chance than an accurate assessment of their residents' means.

About LGiU

The Local Government Information Unit (LGiU) is a think tank and membership body with over 200 councils and other organisations subscribing to our networks. We work to strengthen local democracy and put citizens in control of their own lives, communities and local services. For more information, visit www.lgiu.org.uk



About The MJ

The Municipal Journal (MJ) is the UK's leading weekly magazine for council chief executives and senior managers in local authorities and allied sectors. It offers an insiders' view of what's going on and what people are thinking in today's ever changing and challenging world of local politics – the latest news, incisive comment, in-depth features and interviews, business analysis and the top recruitment vacancies. Visit www.themj.co.uk



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APPENDIX

Survey respondents

RESPONSES BY REGION

East Midlands	13
Eastern	12
London	9
North East	6
North West	14
South East	37
South West	13
West Midlands	18
Yorkshire and Humber	10

RESPONSES BY COUNCIL TYPE

Upper tier

County	16
Unitary	24
London Borough	9
Metropolitan	18
Total	67

Lower tier

Non-Metropolitan District	65
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RESPONSES BY POLITICAL CONTROL OF COUNCIL

Conservative Council	79
Labour Council	39
Liberal Democrat Council	4
No Overall Control Council	9
UKIP	1

RESPONSES BY ROLE

Cabinet Member (Finances/Resources)	12
Chief Executive	42
Director of Finance/Resources	30
Leader	47
Elected mayor	1

Data tables

Expected council tax change 2018/19

Reduce	0.76%
Freeze	3.82%
Increase - up to 0.5%	0.00%
Increase - 0.5% to 1%	3.05%
Increase - 1% to 1.5%	0.00%
Increase - 1.5% to 2%	16.79%
Increase - 2% to 2.5%	2.29%
Increase - 2.5% to 3%	53.44%
Increase - more than 3%	19.85%

Is there a danger that financial constraints will put your authority in a position where you no longer have enough funding to fulfil your statutory duties in 2018/19?	
Yes	9.92%
No	90.08%

Greatest immediate pressures 2016-18	2018	2017	2016
Children's services and education	31.8%	6.8%	12.3%
Adult social care	27.8%	52.4%	42.9%
Housing and homelessness	19.1%	21.8%	22.7%
Environment and waste	9.5%	8.8%	8.4%
Greatest long term pressures 2016-18	2018	2017	2016
Adult social care	37.8%	39.8%	53.6%
Housing and homelessness	18.9%	15.4%	20.9%
Children's services and education	15.8%	12.2%	5.2%
Environment and waste	11.0%	12.2%	8.5%

In which of these areas will activity be reduced in 2018/19 due to budgetary constraints? Tick all that apply	
Parks and leisure facilities	53.19%
Business support	50.00%
Arts and culture	45.74%
Adult Social Care	40.43%
Children's Services	36.17%
Youth centres	34.04%
Libraries	32.98%
Highways and transport	32.98%
Citizens Advice Bureaus	24.47%
Regeneration projects	20.21%
Planning	13.83%
Homelessness support	11.70%
Further education	2.13%

How, if at all, has the quality of your frontline services changed over the last year?	
Improved	14.62%
Sustained	73.08%
Deteriorated	12.31%

Will your 2018/19 budget lead to cuts in frontline services which will be evident to the public?	
Yes	40.46%
No	59.54%

Did your authority use, increase or not touch your reserves last year? And do you intend to use, increase or not touch your reserves this year?			
	Use reserves	Not touch reserves	Increase reserves
2017/18	66.15%	21.54%	12.31%
2018/19	67.97%	21.88%	10.16%

How much of a priority is it for you to actively explore other sources of income?				
Not a priority	Low priority	Medium priority	High priority	Essential
0.00%	0.87%	10.43%	37.39%	51.30%

Which sources of income are you considering? Tick all that apply	
Fees and charges, eg. Garden waste, Planning fees	88.98%
Commercialising council services	76.38%
Commercial developments (locally)	76.38%
Housing developments (locally)	75.59%
Purchasing investment properties	66.14%
Asset sales	59.06%
Advertising space	39.37%
Energy projects	39.37%
Sponsorship	28.35%
Commercial developments (further afield)	18.90%
Other (please specify)	8.66%
Housing developments (further afield)	7.09%
Congestion charge	1.57%

If you are planning to seek external funding for any of the above projects, where from? Tick all that apply	
Public Works Loans Board	93.86%
Grant funding	34.21%
Private investment	20.18%
Other local authorities	18.42%
Capital markets	13.16%

Municipal Bonds Agency	12.28%
Bank loan	8.77%
Crowdfunding	7.02%
Other (please specify)	4.39%

How much of your 2018/19 budget will be funded from increased charging?	
None	7.50%
0% to 5%	77.50%
5% to 10%	6.67%
10% to 15%	5.00%
15% to 20%	1.67%
Above 20%	1.67%

How confident do you feel about the sustainability of local government finance?			
Not at all confident	Not very confident	Quite confident	Very confident
21.67%	58.33%	19.17%	0.83%

What do you think should happen in the next year to alleviate financial pressures and help councils plan ahead? Tick all statements that you agree with	
Commitment to maintain at least 2017 level of funding for at least 3 years (in any form)	71.31%
Assurances that government will cover the costs associated with changes to centrally-set business rate policy	68.03%
Remove council tax rise referendum requirement	62.30%
Full roll out of 75% business rate retention, not just in pilot areas	57.38%
Formal consultation on local funding system options	51.64%
Indication of social care policy direction to enable public and private investment	51.64%
Indication of devolution and business rate retention policy direction	50.82%
Raise HRA borrowing cap for ALL councils	45.90%
More control over council tax exemptions/discounts	45.08%
Indication of how local government structures and roles may evolve	38.52%
Other (please specify)	23.77%
Revert to Revenue Support Grant for the time being	21.31%

In an ideal world, which of these would you like the government to consider, if any? Tick all that apply	
Redesigning business rate system to make it fairer	65.29%
Health and social care integration	52.07%
Revaluing council tax bands	48.76%
Rebanding properties	32.23%
Remove the ringfencing on Health/Education grants	29.75%
Hotel/tourism tax	28.10%
Place-based budgets	28.10%
Ringfenced grant for social care	25.62%

Implement a land value tax	24.79%
Local income tax	19.83%
Local VAT/sales tax	18.18%
Other (please specify)	11.57%

What are your top concerns about how 100% Business Rate Retention might impact your authority? Rank in order of priority by dragging boxes (1=highest)					
RANK	1	2	3	4	5
Costs and risk associated with business rates appeals	13.91%	23.48%	22.61%	25.22%	14.78%
Not being reimbursed for national changes to business rate policy	11.82%	20.91%	29.09%	20.91%	17.27%
Lack of clarity about the future shape of the policy – redistribution, reset period, etc.	25.00%	18.10%	25.00%	20.69%	11.21%
Pressure on demand-led services like social care	29.63%	13.89%	7.41%	12.04%	37.04%
Volatility of business rates as a funding source	25.42%	25.42%	17.80%	16.95%	14.41%

Do you want the Housing Revenue Account cap to be raised in your area?	
Yes	80.00%
No	20.00%

What, in your opinion, should be done to ease the pressure on housing? Tick all that apply	
Allow councils to charge council tax on undeveloped land with planning permission	89.57%
Introduce “use it or lose it” powers to revoke planning permission for stalled developments	81.74%
Additional funding for the accompanying infrastructure (roads, schools, etc.)	79.13%
Ensure councils can keep 100% of right-to-buy sale proceeds	76.52%
Allow councils to set charges for stalled developments	73.91%
Remove the HRA borrowing cap	62.61%
Halt plans to roll out right-to-buy for housing associations	60.87%
Strengthen Compulsory Purchase Order powers to prevent land-banking	58.26%
End right-to-buy for council housing	57.39%
Better resourcing of Planning departments	33.04%
Other (please specify)	13.91%

What is the MAIN barrier to economic growth in your region?	
Poor transport infrastructure	32.20%
Lack of inward investment	15.25%
Lack of commercial space	14.41%
Lack of needed skills	12.71%

Lack of suitable jobs	10.17%
Lack of suitable housing	10.17%
Poor digital infrastructure	5.08%

Do you measure your council's impact on local growth?	
No	65.22%
Yes	34.78%