A semi-permanent austerity regime continues in local government

The National Audit Office did a report on local government financing in November of last year. It provides and overview and looks at “challenges” faced as a result of a decade of austerity and the pandemic. Local authorities have a straight-jacket imposed on them which does not apply to the rest of the public sector, e.g. the NHS. They have to balance their budget every year. Doing this in the context of the austerity programme introduced in 2010 has meant deep cuts to services year on year. Central government funding (other than for schools which is provided directly) for local authorities fell in real terms, that is taking account of inflation, by 52.3% from 2010-11 to 2020-21.

Whilst 50% of overall spending by local authorities goes to social care, those authorities that have responsibility for it are actually spending around 80% of their budgets on it. This has meant that all other services, mandatory and discretionary have been deeply cut as this table shows.

Changes in service spend by English local authorities, gross of sales, fees and charges, 2010-11 to 2019-20

Change in service expenditure (indexed: 2010-11 = 0%, real terms in 2019-20 prices) (%)

	Spending (£ billion)	Percentage
Cultural and related services	- 1.7	-36.8%
Planning and development services	- 1.1	-35.7%
Non-schools Education	- 2.7	-31.6%
Housing Services (General Fund)	- 0.9	-25.7%
Highways and Transport Services	- 1.5	-23.6%
Central Services	- 0.8	-16.4%
Environmental and Regulatory Services	- 0.8	-10.5%
Adult Social Care	+ 1.1	+5.1%
Children's Social Care	+ 1.3	+16.8%

The impact has been severe. For example

- The number of food standards and hygiene samples taken by local authorities fell by 49% between 2010-11 and 2019-20. The Food Standards Agency has said that local authorities are “...under increasing financial pressure, such that some are struggling to fully discharge their functions.”
- Local authority supported bus service mileage in England outside London reduced by 57% over the same period. This undermines the aim of decarbonising transport.
- In June 2021 the NAO reported that “staffing and capacity challenges in Trading Standards services present risks to the sustainability of the regulatory system. Even the Department for Business and Energy & Industrial Strategy told the NAO in 2018 that it was concerned about reductions “going too far”.
- The 25% cut in General Fund Housing Services (non-council housing) in the context of the growing private rental market means that councils have insufficient environmental housing officers to police it. The private sector has the highest level of 'non-decent homes'.

The impact of cuts in funding has been unequally felt around the country because the increasing reliance on council tax is beneficial to better off areas where the council tax base produces far more income owing to higher property prices. Both the New Homes Bonus and the Community Infrastructure Levy are related to “the strength of local property markets”. Of £65,243 million revenue income £54,764 million was dependent to some extent on local economic conditions. This component of funding has increased by 68% in real terms compared to 2010-11.

Unmet needs

Whilst adult and child social care services have been protected to some extent the increases in funding have not been sufficient to fund services according to actual needs, which are increasing year by year. An NAO report on social care concluded that “levels of unpaid care remain high, too many adults have unmet needs, and a lack of long-term vision for care and short-term funding has hampered local authorities ability to innovate and plan for the long term.” You will hear many councils saying they have ensured that “those who need the service most” will get it but in reality hundreds of thousands of people who need support do not get it.

In November ADASS (the Association of Directors of Social Care) expressed it alarm at the approach of winter. Its survey showed

- almost 400,000 people waiting for an assessment of their needs or service. More than 40,000 had been waiting for more than six months for their initial assessment.
- more than 1.5 million hours of commissioned home care could not be provided in the three months from August because of lack of staff, and
- one in two councils had to respond to a care home closure or bankruptcy in the last six months.

The NAO referred to the Committee of Public Accounts which in 2019 said the government had “not done enough to make the quality or finances of children's social care sustainable”. In 2017-18 91% of local authorities exceeded their budget on children's services.

Based on long term forecasts on increases in future demand, around 29% more adults aged 18 to 64, and 57% more adults 65 and over, will require some form of care in 2038 as compared to 2018. The publicly funded costs of care for all adults were projected to rise from £17.9 billion to £34.7 billion between 2018 and 2038. The quality of people's lives will deteriorate unless councils are funded according to social needs.

Overspend

From the three years starting with 2011-12 English councils overall had an underspend of just over 1%. As austerity began to bite and grants were cut overspending on budget began in 2014-15 and had risen to 3.1% in 2019-20. Councils have increased reserves to help them to bridge the gap between budget and overspend. Reserves were £5.6 billion higher in 2019-20 than in 2010-11. Yet as “a buffer against uncertainty”, adding money to reserves “could potentially add to the impact of funding reductions”. In 2010-11 only 8 single tier and county councils held reserves which were above 45% of their spending power, with 61 above 15% but below 25% and 48 less than 15%. By 2019-20 the pyramid so to speak had been inverted with 48 above 45% and only 9 with less than 15%.

Chasing 'yield'

As central government grant shrank further each year, the coalition and Tory governments encouraged councils to become more commercial in order to create revenue stream to replace government grant. The National Audit Office estimated that local authorities bought £6.6 billion of commercial property between 2016-17 and 2018-19; a fourteen-fold increase! Over the three years the overall increase in borrowing was £12.7 billion. Meg Hillier, chair of the Public Accounts Committee, said: “Given local authorities have faced such big cuts, it is understandable that many might take part in risky investments to get more money in. However, a fourteen-fold increase in spend on commercial property raises serious alarm bells.”

Another NAO report said that: “Some 80% of the cumulative spend in the sector over the period 2016-17 to 2018-19 is accounted for by only 49 local authorities (13.9%). However, 105 authorities had spent at least £10 million on commercial property in this period.”

As a result of the risky spending which some councils carried out the government decided that they would restrict their ability to make commercial investment 'specifically for yield'. The government found them guilty of doing what they themselves had encouraged them to do.

Local authorities are required to set aside money over time to repay a loan, rather than simply paying the interest and leaving the whole of the 'principal' to be repaid at the end of the loan period. This is known as the Minimum Revenue Provision. Despite the fact that English local authority borrowing has increased by £30 billion since 2010-11, MRP has fallen from £2 billion to £1.5 billion. The NAO says a 30% fall in real terms. This risks spikes in repayment of debt impacting on other services.

Overall district debt costs as a proportion of spending power rose by 9 percentage points between 2010-11 and 2019-20, a three times increase. For the top 20 districts it rose from 17.3% to 68.7%. Despite the historically low interest rates UK councils paid £5.846 billion in loan and interest payments to the Public Works Loans Board in 2020-21.

Overview

Local authorities are service providers, not commercial businesses. In 2013 the link between annual estimated social needs and funding was abandoned. The human consequences of this are not very visible because the denial of social services for instance to people who's needs are not deemed to be 'acute' mean that the quality of their lives is poor with the consequence that many will die earlier than would be the case if they were given support in their homes.

More broadly there has been a deterioration of public services which is visible in things like the deteriorating quality of roads, the loss of public services like libraries. Austerity has also increased the pressure on local authority staff as their numbers decline but their workload increases. Many vote with their feet. In adult and children's social services this can have disastrous consequences.

There can be no solution to this crisis without funding based on annual assessments of social needs. The idea that councils should operate like commercial services should be abandoned. Commercial investments are accompanied by risks. If revenue stream is lower than the cost of servicing debt then that has a negative impact on other services.

If 'levelling-up' was more than an empty slogan then councils would be funded on the basis of attempting to equalise the provision of services across the country, regardless of the economic conditions, the relative wealth or poverty of localities. The government ended annual assessments of social needs in each area in 2013. The so-called Fair Funding Review has so far failed to materialise. The NAO points out that in the absence of this review the amount of revenue support grant and business rates distributed is based on 2013 datasets. “Most commonly, elements of the funding formula use three year averages from 2009-10 to 2011-12, but in some instances older data are used, including the 2001 census.”

The idea of cancellation of local authority debt as an emergency measure to mitigate the impact of austerity was first raised in the early stages of the pandemic. Nothing has changed since then. Although the government has provided funding to cover lost income and expenses, the impact of the pandemic will not be short-lived. The NAO says

“There is evidence the pandemic will have a medium to long-term scarring impact on the sector's finances. Many local authorities do not know when their finances will recover, while more than half of local authorities indicated to us in late 2020 that their finances would not recover at least until 2023-24.”

Every year, as councils put together their budgets there is an overspend which has to be dealt with. Councils refer to these as funding “pressures”. They are the result of increased demand, inflation and other factors, which mean that they have insufficient funding to pay for what they need. There is therefore a semi-permanent austerity regime under which, to cover these pressures, cuts have to be found in order to produce a budget that balances.

Given the increasing weight of spending on adult and children's social care the deepening crisis of these services cannot be resolved without fundamental changes, including (in my view) an end to the care market. Labour's policy in relation to local government merits a separate article. Suffice it to say that nothing will change without a determination to end this semi-permanent austerity regime and to institute a system based on social needs, uprated annually.

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