



National Audit Office

Local government: an NAO perspective

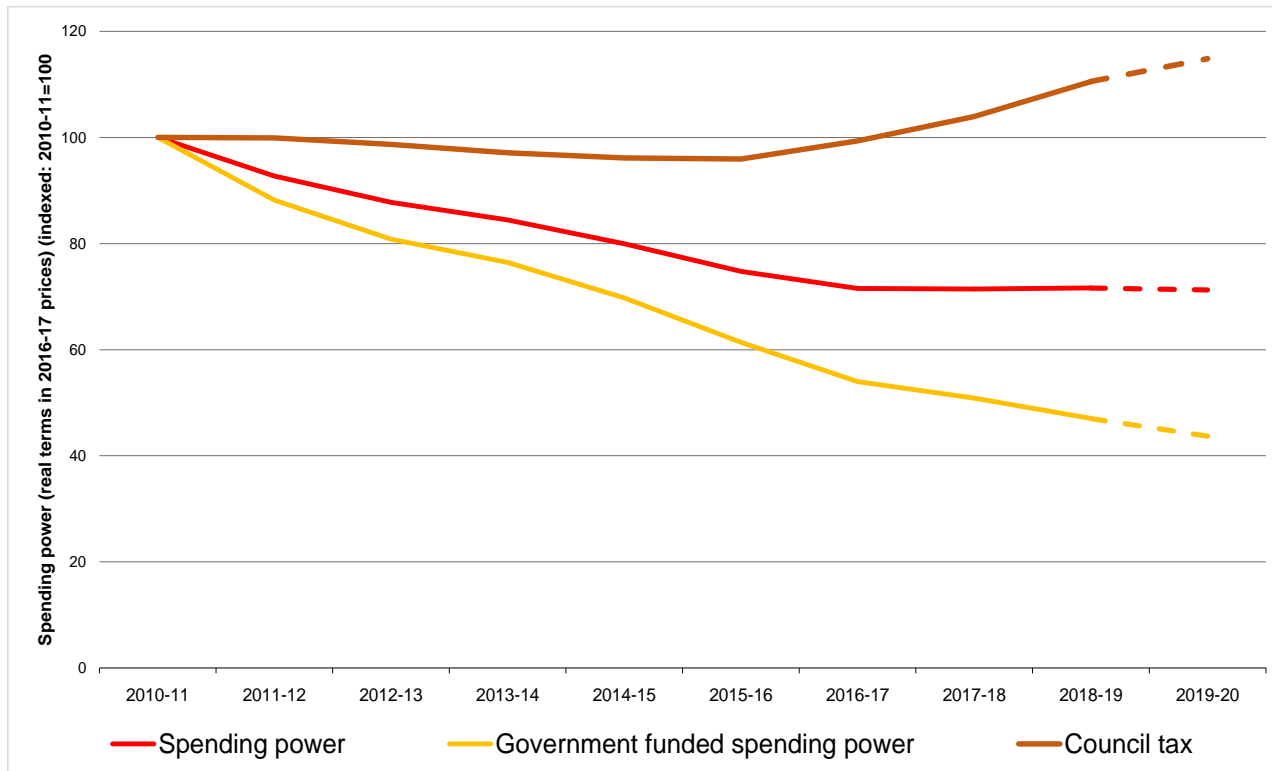
Aileen Murphie
MHCLG & LG VFM

December 2018

Overview | **Current position of local government**

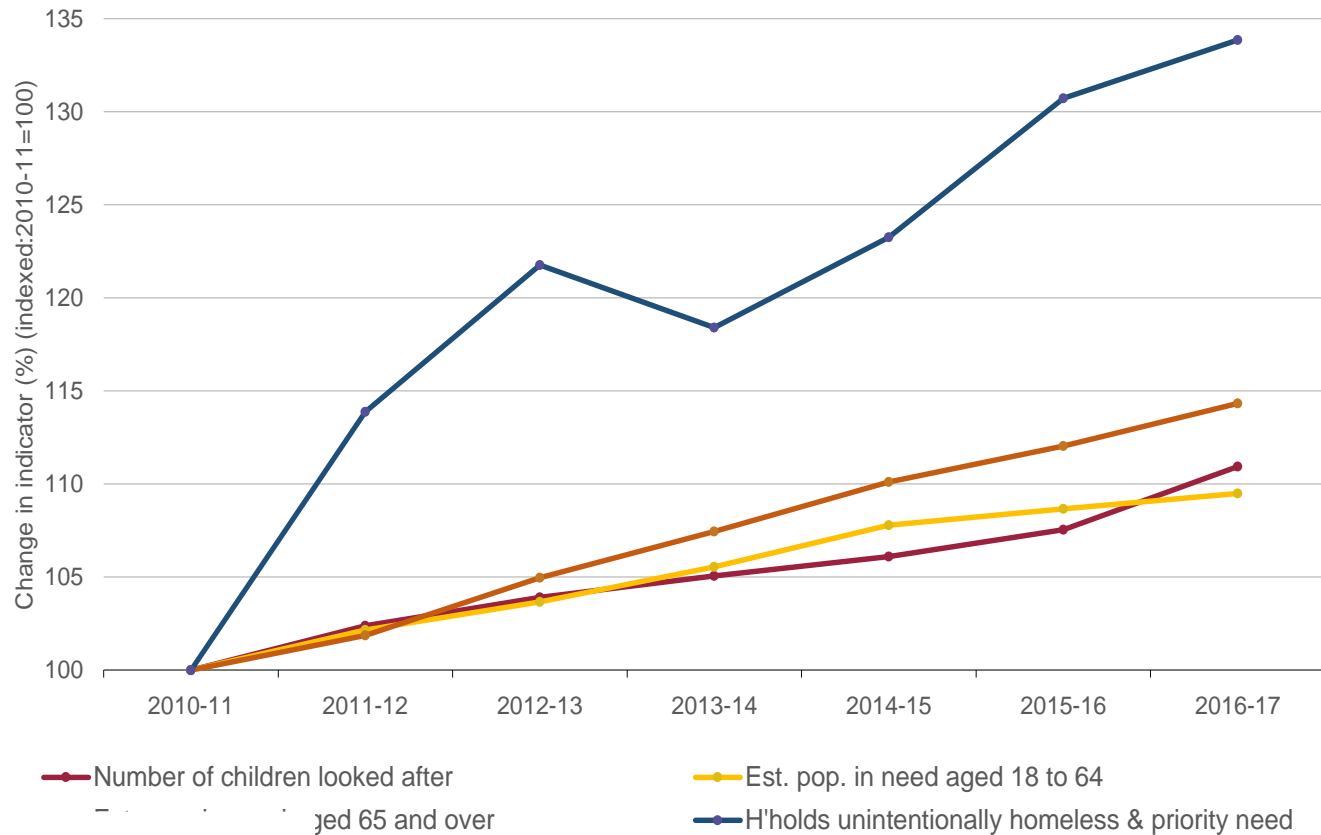
- What are the **risks and challenges** facing local government at the moment?
- NAO review of local government **governance**

Financial challenge | Funding reductions since 2010-11



- **Substantial real terms falls in government funding:**
 - **49.1%** reduction 2010-11 to 2017-18
 - **56.3%** reduction by 2019-20
- **Spending power fell steadily** from 2010-11 to 2016-17 (**28.5%**) then levelled off: relies on substantial anticipated growth in council tax.
- **Much new cash is also focused solely on ASC.** Non ASC funding falls by 8.2% from 2016-17 to 2019-20

Challenge | Growing demand on local authorities



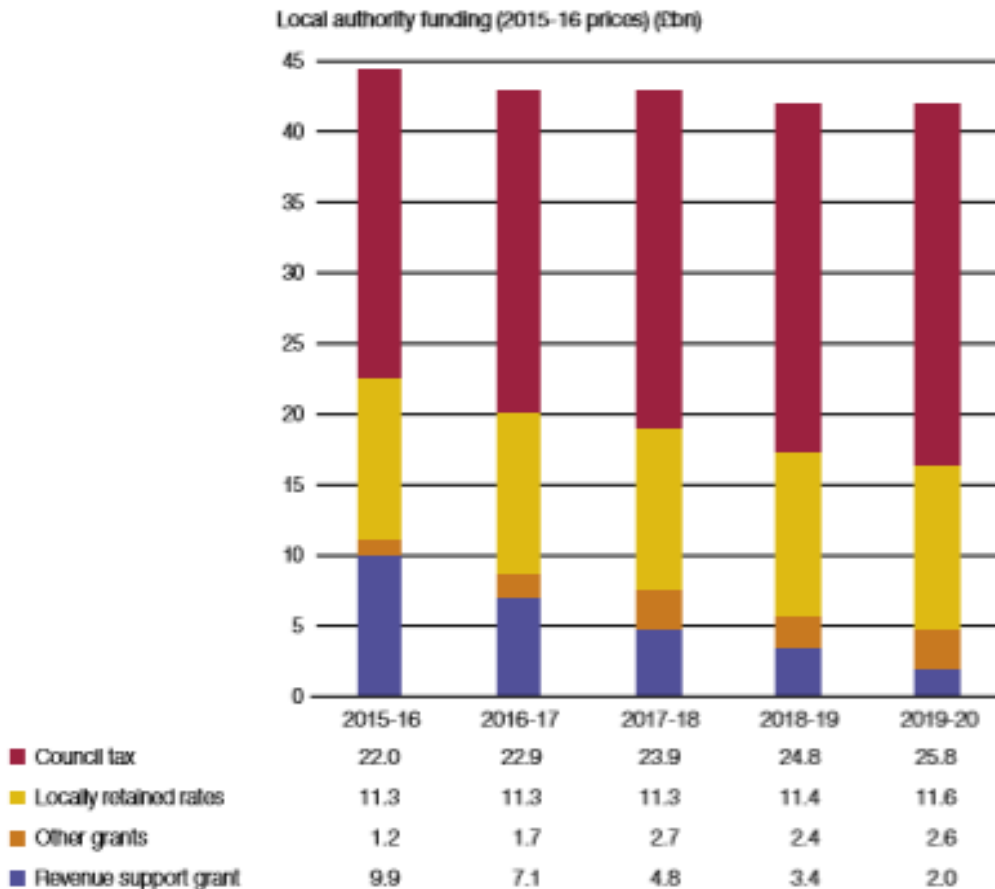
- **10.9%** increase in children looked after 2010-11 to 2016-17
- **9.5%** increase in the estimated population in need aged 18-64
- **14.3%** increase in the population in need aged 65 and over
- **33.9%** increase in households accepted as unintentionally homeless and in priority need

Challenge | Changing components of LG finance

Figure 9

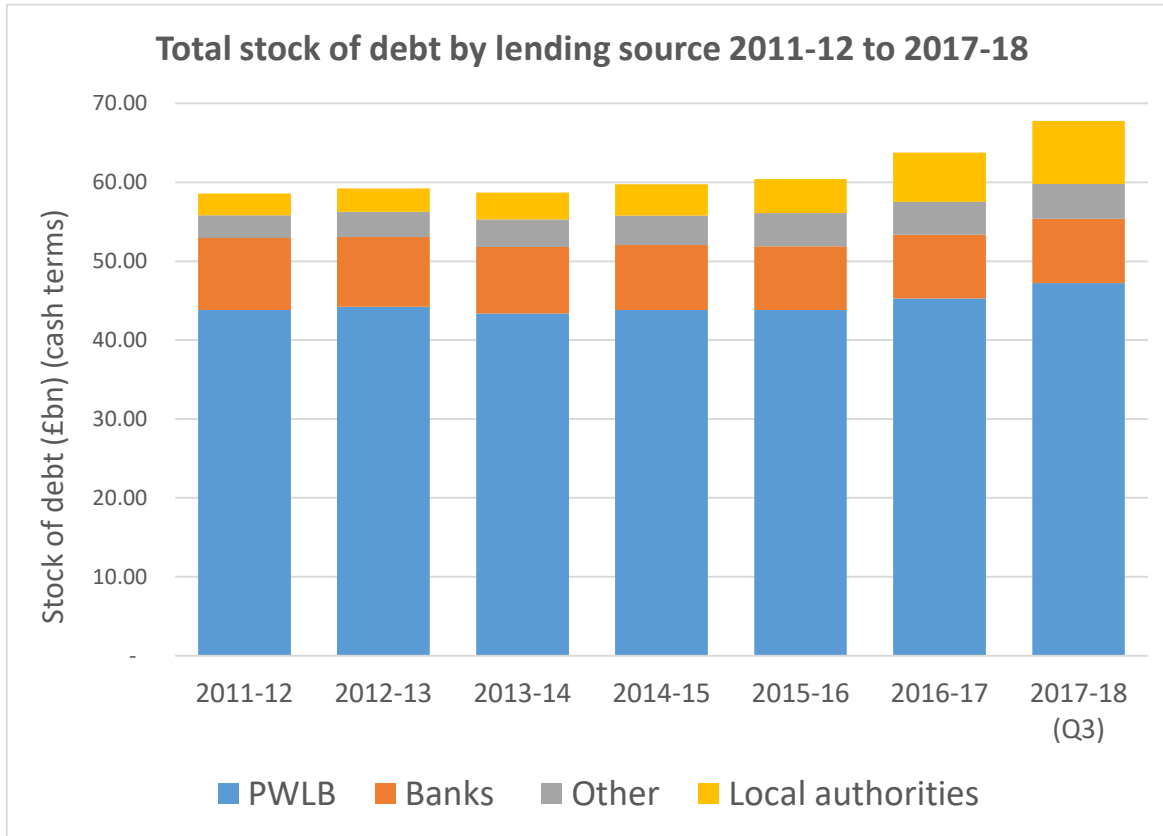
Change in components of core spending power, 2015-16 to 2019-20

Core spending power will fall until 2018-19, then rise slightly



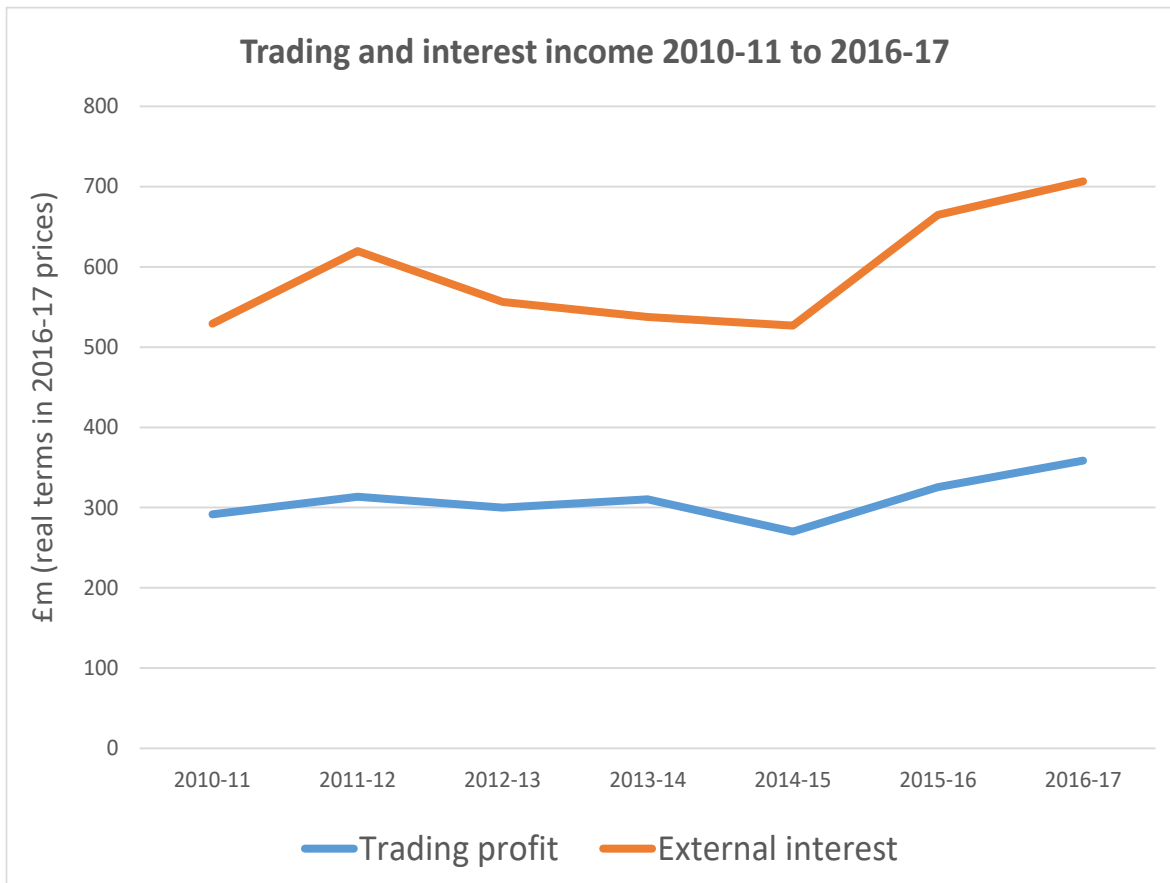
- Greater **self-sufficiency in local authorities' finances** is a policy goal
- Taking place in the context of a reduction in their funding: **28.2% reduction in spending power** (government grant, locally retained business rates and council tax)

Responses | Borrowing for commercial purposes



- Initially **local authorities held borrowing down** as part of their strategy of holding capital costs to revenue
- But **borrowing has ramped up since 2015-16**: a combination of **long-term borrowing from PWLB** and **short-term inter-authority lending**
- Growth in PWLB lending is linked to a **strategy of commercial investment by authorities**.
- Fact that authorities have **increased borrowing and reduced debt costs** at the same time since 2015-16 is a tribute to treasury management skills in the sector.

Responses | Generating new income



- Some evidence that local authorities' commercial activities are generating a return.
- **Trading profit has increased by £90m since 2014-15**
- Biggest increase has been from **external interest– up £180m since 2014-15**
- This is likely to reflect local authorities re-investing loans from PWLB until they are required in their investment strategies.
- Overall, however, **these are not yet large sums** given the scale of the challenge faced by the sector

Responses | **Reform of local government finance**

- Trilogy of change in 2019-20...
 - **75% business rate retention**
 - **Fair Funding Review**
 - **SR19**

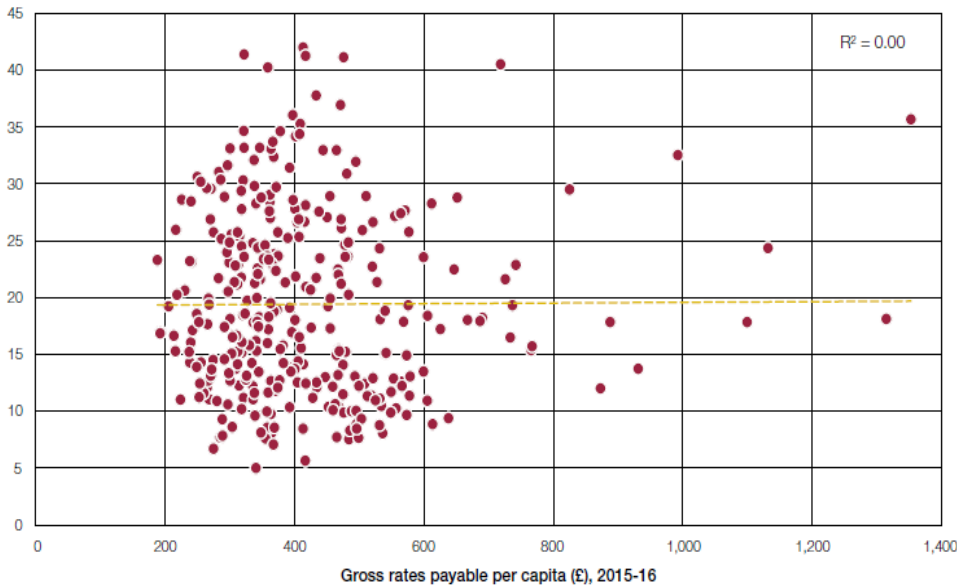
Responses | Business rates tax base vs need:

Figure 2

Level of deprivation and gross rates payable per capita by billing authority

The scale of an area's business rates tax base (per capita) does not necessarily match its level of need for local services

Indices of multiple deprivation (average score), 2015



Notes

1 See separate *Methodology* document for details of data sources and methodological approach.

2 The dotted line is a regression line which shows no correlation between the two variables.

Source: National Audit Office analysis of Department for Communities and Local Government and Office for National Statistics data

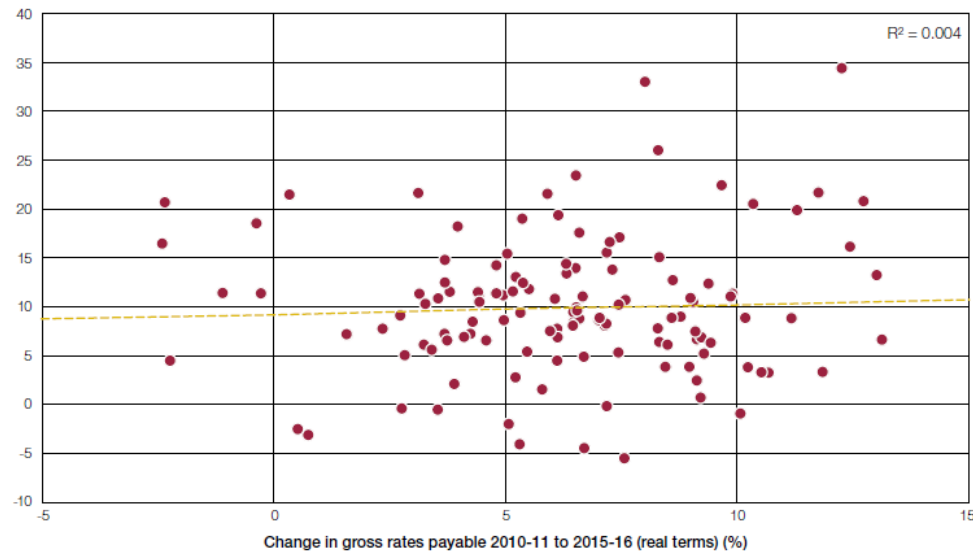
- **No correlation** between an authority's business rates tax base (gross rates payable per capita) and its need for local services (indices of multiple deprivation).
- So, government **redistributes** locally collected income to ensure that all local authorities are sufficiently funded.
- But **need and ability** to generate business rates locally can **diverge** over time. The 50% scheme sought to correct for these through a system of periodic resets. Between 2010-11 and 2015-16 the change in authority tax bases ranged from a **reduction of 27.7% to an increase of 27.2%**.
- A **majority of authorities have experienced growth** in their tax bases since 2010-11. Those that have lost out tend to be authorities that have had to make large provisions for appeals.

Responses | Business rates and economic growth

Figure 7
Growth in the business rates tax base against growth in economic output by local area

High levels of business rates growth do not necessarily reflect economic growth

Change in gross value added 2010–2015 (real terms) (%)



Notes

1 See separate *Methodology* document for details of data sources and methodological approach.

2 The dotted line is a regression line which shows no correlation between the two variables.

Source: National Audit Office analysis of Department for Communities and Local Government and Office for National Statistics data

- One objective of the business rates retention scheme is to promote **economic growth**.
- However, business rates growth is driven by **growth in business floorspace** and the link between growth in floorspace and economic growth is **not direct**.
- When we compared growth in business rates tax base against growth in economic output by local area **we did not find a relationship**.
- The link between business rates growth and local economic growth has not been well thought through by the Department. **Our report recommended that the Department strengthens its understanding of the link between business rates and economic growth** to ensure economic growth can be maximised.

Upcoming reports | **Challenges for the future**

- **Local authority governance:**
 - Higher risk profiles and appetites
 - More difficult decisions
 - Greater local challenge
 - Maintaining transparency
 - Demand for new skills
 - Greater complexity
 - Greater immediacy
 - Reduced independent oversight
 - Reduced corporate resources

Study scope: Our study addresses the following questions...

Are current local governance and accountability arrangements able to provide **local taxpayers and Parliament with assurance that local authority spending is VfM and that authorities are financially sustainable?**

How has the local government governance and accountability landscape changed since 2010-11?

Do key elements of the governance and accountability framework function as intended?

How is the Department exercising its responsibilities as the steward of the system?

Conclusion | **Challenges for the future**

- Further **spending reductions until 2019-2020** & demand increasing
- **Variability of impact** will continue
- Greater **uncertainty** with 75% business rate retention, the Fair Funding Review, SR 19 & Brexit
- Need full picture of **risk** both locally and nationally
- Changing **accountability landscape** when more funds are generated locally

A way forward | **Recommendations and views**

- The sector needs a **long-term plan** to secure its financial sustainability
- The NHS will have a 10-year plan and resources – so should **ASC**
- Future relationship with the NHS: **‘lockstep’**
- Central government needs a **single central understanding** of service delivery as a whole
- MHCLG needs an understanding of **systemic risk** in the system based on ongoing monitoring of trends

Thank you



All reports are available at
www.nao.org.uk



Follow the NAO on Twitter
[@NAOorguk](https://twitter.com/NAOorguk)



Subscribe to notifications with
[NAO preference centre](#)



View our blog
www.nao.org.uk/naoblog



Explore your authority at our interactive data
www.nao.org.uk/highlights/financial-sustainability-of-local-authorities-2018-visualisation



Please contact Aileen Murphie with any further questions
Aileen.murphie@nao.org.uk