



## What is happening to local government finances and why are councils struggling?

19th September



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Communities Secretary Michael Gove confirmed on Tuesday that he will appoint commissioners to oversee the day-to-day running of the West Midlands city after an anticipated gap of £87 million between income and expenditure was identified for the 2024/25 financial year, sparking the issuing of a section 114 notice.

Here the PA news agency examines the causes and consequences of financial failure in local government and the options available to the Government.

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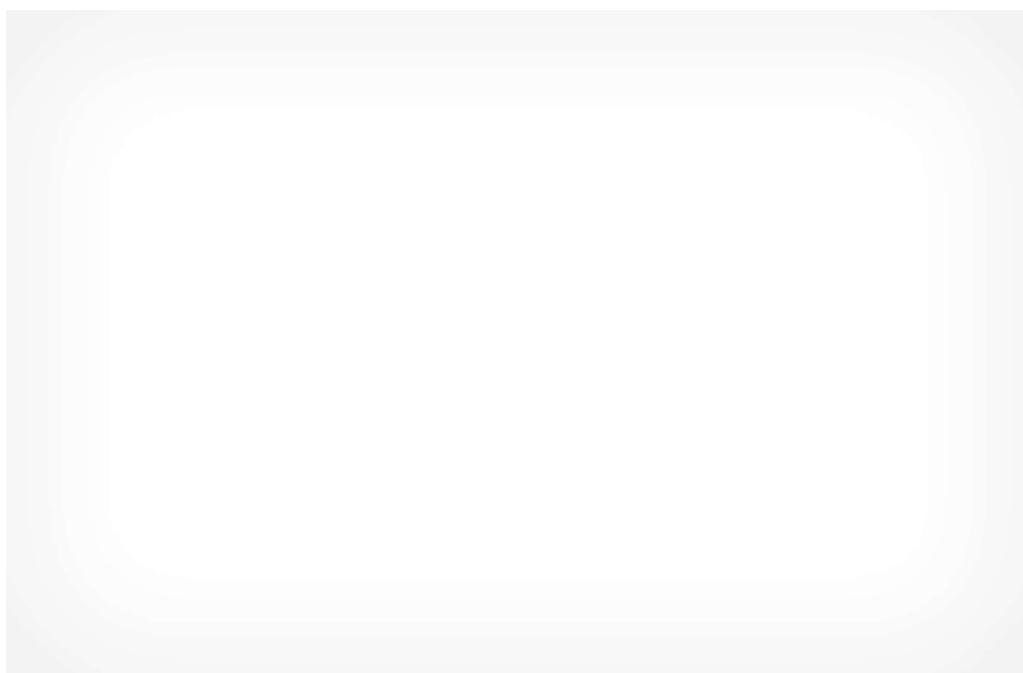
### - What happened at Birmingham City Council?

Birmingham City Council chief finance officer Fiona Greenway issued a section 114 notice on the basis that the authority was unable to pay a "potential liability" relating to equal pay claims in the region of £650 million and £760 million.

The council also identified that the budget shortfall for the current financial year of £87 million is forecast to rise to £165 million in 2024/25.

On equal pay, Birmingham has already paid out almost £1.1 billion in claims since a case was brought against the authority in 2012.

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At the time, the court found hundreds of mostly female employees working as teaching assistants, cleaners and catering staff missed out on bonuses that were given to staff in traditionally male-dominated roles.

A document published on behalf of Birmingham chief executive Deborah Cadman on Monday said the authority faces an urgent “redesign” likely to require asset sales, cuts to staffing levels and an increase in local taxes.

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In an ominous warning, the Unite union has said the government commissioners would “not sit back and allow our members’ jobs to be used to pay for others’ failures”.

### - What has happened to local government finances?

In 2010, the Government targeted local government funding as a key opportunity to make savings under austerity plans that would characterise public services over the next decade.

Councils’ spending power – the amount they have available from the government grant, council tax and business rates – fell by 17.5% between 2009/10 and 2019/20, according to the Institute for Government.

After a small uplift in recent years, the budget was generally still 10.2% below the amount available to councils in 2009/10. This is at a time when both demand for services and costs have risen significantly.



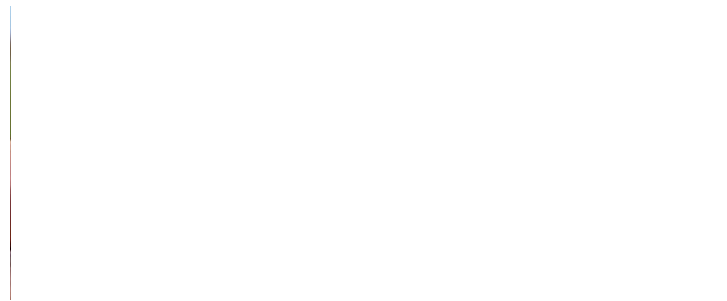
George Osborne oversaw austerity policies while chancellor (Danny Lawson/PA)

However, it still became increasingly necessary for councils to scale back services and constantly search for “efficiencies”.

## - How did councils respond to the funding squeeze?

As core Government funding fell, reliance on council tax revenue grew, with the inevitable need to increase bills on an annual basis.

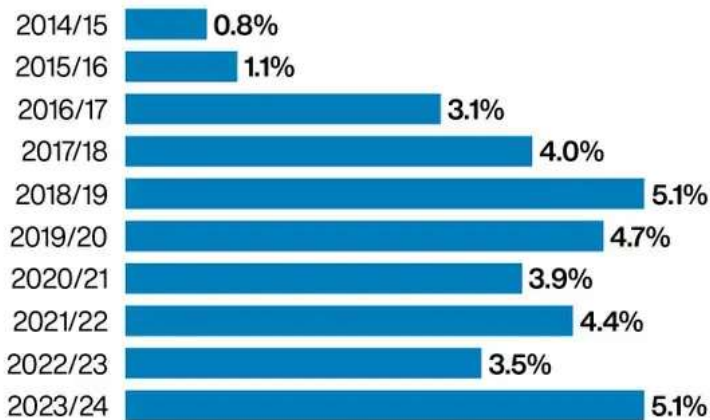
While the Government has imposed thresholds for these rises, most councils regularly increase council tax by the maximum permitted without holding a local referendum.



However, growing demand for adult and children’s social care in particular has meant these limited resources have been overwhelmingly directed to a select number of increasingly expensive services.

## Average rise in council tax in England

(Band D properties)



PA graphic. Source: Department for Levelling Up, Housing & Communities

(PA Graphics)

Meanwhile, new responsibilities passed down from Whitehall have also created an unstable policy environment and further uncertainty.

### **- What impact has reduced funding had on services and strategy?**

Services categorised as discretionary – which could include early health interventions which can help councils limit or manage future demand to support those with higher care needs – have been significantly scaled back.

This has ultimately left many councils “fighting fires” in order to protect the most vulnerable people, rather than providing a broad range of prevention and support services across communities.



The rising cost of children's social care is now the biggest financial pressure in some councils (Dominic Lipinski/PA)

Some councils have resorted to commercial investments which may have appeared low risk a few years ago, but proved to be the opposite as economic turmoil took hold.

but has failed to deliver after a number of false dawns on what is known as the “fair funding review”.

The consequences of this are not felt equally across the country. The Institute for Fiscal Studies recently said poorer communities with the highest level of needs receive less investment, predominantly due to the Government’s failure to adjust the formulae determining grant allocations.

It is an issue Rishi Sunak knows well, having led on fair funding when he was a local government minister.

Core funding allocations from the Government have also consistently failed to keep pace with inflation.

While some councils have suffered from failed investments, Birmingham City Council is one that has experienced the impact of failing to deal with equal pay requirements.



Prime Minister Rishi Sunak previously led on the fair funding review when he was local government minister (Dan Kitwood/PA)

However, rising costs are the key threat to the financial stability of many councils identified as being at risk of issuing a section 114 notice.

As a result, reserves – essential for councils’ resilience and ability to manage financial shocks – are now being drawn down at a significant rate.

This approach may enable councils to balance the books in the short term, but it creates a heightened sense of risk with structural deficits looming further down the line.

**- What can the Government do to support struggling councils now?**

Previous resilience shown in the face of reduced funding is now being eroded at an alarming rate, with widespread consequences such as job losses, the sale of public assets, closed services and further council tax rises.

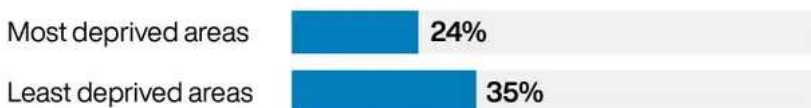
It is important to note that Thurrock and Slough were given special permission to raise council by 10% for 2023-24 without a community referendum due to their financial difficulties.

## Cost of living: impact by level of deprivation

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### Adults making energy efficient improvements to home



### Adults using less fuel in home



PA graphic. Source: ONS survey of adults in Britain, Nov 8-20 2022

(PA Graphics)

This would impact on many households already struggling in a cost-of-living crisis and is unlikely to be a feasible option at scale if other councils are unable to balance the books.

In recent years, some councils on the brink of financial distress have sought what are known as capitalisation directions from the Government.

These give councils special permission to use their capital funds – which could be accrued from selling assets – to top up their spending on services.

The evidence suggests there could be many more requests for capitalisation directions, but agreeing to relax restrictions on a large scale could risk normalising the approach.



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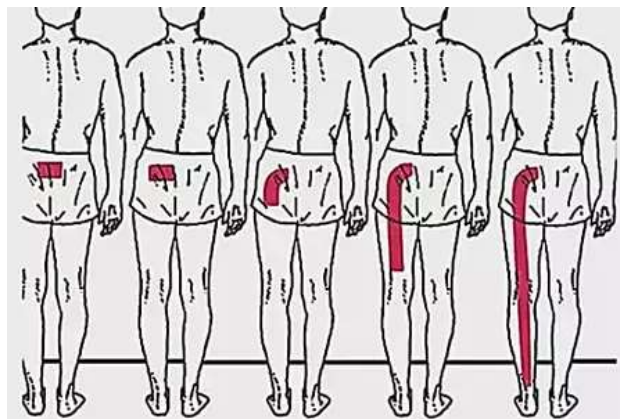
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