

DEMOS

# BEYOND THE STICKING PLASTER

A VISION FOR LONG-  
TERM REFORM OF LOCAL  
GOVERNMENT FINANCES

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Any errors remain the authors' responsibility.

**Andrew Phillips**  
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# ABOUT THIS REPORT

This report is part of our Public Service Reform pillar of work at Demos. In this pillar, we look at how public service reform can empower citizens and professionals, prevent problems from arising in the first place, and support the economy - as set out in our cross-cutting vision for reform, [Liberated Public Services](#).

Local councils in England provide essential public services - from social infrastructure like parks, libraries and community centres, to adult and children's social care, to bin collections. Citizens' experiences of living in their local communities and using local public services is shaped by the actions of councils.

Yet councils in England are under significant financial strain. Seven councils have declared effective bankruptcy by issuing Section 114 notices since 2018. A total of 18 councils are relying on Exceptional Financial Support from central government in the 2024-25 financial year.

As a result of the increasingly dire financial situation many councils are in, they are being forced to prioritise spending for those services which support more vulnerable people, such as adult social care, children's social care and homelessness relief. This means cuts to other general services - from adventure playgrounds for children, to mental health wellbeing services, to Christmas lights.

This report investigates why we have ended up in this situation, arguing that one of the key underlying reasons for the current financial crisis is the lack of clarity regarding the purpose of local government in England. It then proposes a new vision for *liberated local government* and long-term reform of local government finances designed to support that vision.

The research and policy development process has been supported by an expert Advisory Group and two roundtables with a wide range of stakeholders from local government and beyond.

# EXECUTIVE SUMMARY

In Leicester, adventure playgrounds used by children in the school holidays are being closed. In Hampshire, funding for mental health wellbeing services has been cut in half. In both the London Boroughs of Havering and Newham, the councils have announced they are unable to fund Christmas lights for 2024. Sunderland had 11 council-run libraries in 2016, but today just three are left.

All these visible signs of decline are the direct result of the crisis in local government finances. They are contributing to a general sense that things are getting worse in our neighbourhoods, high streets, towns and cities. Polling conducted for the Local Government Association shows a steady decline in citizens' satisfaction with their local council, from 70% satisfaction in 2014 down to 55% satisfaction in June 2024. Over the last few decades, especially since the global financial crisis in 2008, social spaces have been closed or shut down: there are fewer children's centres, youth centres, leisure centres, libraries, post offices and pubs today than ten years ago. These trends are worsening people's everyday experiences of life in their communities. More than that, by cutting back on those services, buildings and public goods which strengthen our communities and livelihoods, we are stuck in a vicious cycle of social and economic decline.

Fundamental reform of local government finances in England is needed in order to escape this vicious cycle. However, a lack of clarity about the purpose of local government is a serious barrier to reform of the finance system.

Over a long period of time, especially since 1945, the purpose of local government has been narrowed to merely being a *delivery arm of central government*, pushing aside ideas of *local democracy* and *place leadership*. Central government has increasingly exerted more control over local government, using it to provide public services, especially social services such as adult social care and children's social care. These demand-led 'high needs' services, mandated by central government through national legislation, provide essential support for some of the most vulnerable people in our society. However, they are crowding out the other purposes of local government: already £2 in every £3 which councils spend goes on adult and children's social care, and this is set to increase further. Since councils have legal responsibilities to provide these services and are unable to raise further revenue due to central government's control over local taxes, they have no choice but to reduce spending elsewhere - hence cuts in spending on libraries, fixing potholes and even Christmas lights.

The outlook for councils over the next Parliament is bleak. Current fiscal plans imply a real-terms cut to councils' budgets, yet demand and costs are increasing in multiple services, especially adult social care, children's social care, homelessness and temporary accommodation, and support for children and young people with special educational needs and disabilities (SEND). Under a plausible forecast, councils could face an £11 billion funding gap by 2029-30. Without changes, more councils will be forced to declare effective bankruptcy by issuing Section 114 notices, as seven councils already have since 2018.

However simply topping up the current system with more funding is not sustainable. Even in the mid-2000s, in the midst of significant increases in local government funding and benign economic conditions, councils were still under-resourced to fulfil the responsibilities mandated by central government.

In a speech in 2023, the Prime Minister stated that, under his leadership, there would be “no more sticking plaster politics” which is “at the heart of all the problems we see across our country right now” and results in “the long-term cure always elud[ing] us”. This perfectly describes the situation in the local government finance system. Councils have become reliant on sticking plasters, from last minute ‘capitalisation directions’, to permanently selling assets, to being allowed to keep debt off balance sheets. None of these measures are ‘fixing the foundations’ of local government in England.

This paper sets out a vision and presents proposals for long-term reform of the local government finance system, by liberating councils and giving them a renewed and more clearly defined purpose centred on local democracy and place leadership.

These ideas are designed to stimulate a conversation about the purpose of local government in England in the 21st century, and how to reform the finance system in order to enable local government to fulfil that purpose. Not everyone will agree with our proposals, but we hope that they will help to move the conversation forward. Currently, there is a lack of clarity about the purpose of local government, and as a consequence the finance system has numerous sticking plasters unsuccessfully attempting to hold it together. This is not sustainable.

In our view, a long-term vision would mean separating national priorities from local decisions in order to break out of the current vicious cycle, liberating councils from being the delivery arm of central government. To achieve this, central government should take responsibility for funding demand-led high needs services which are national priorities. At the same time, councils can then fulfil their renewed purpose, being able democratically to respond to local citizens’ priorities and to help facilitate thriving neighbourhoods and communities.

Under our proposals, central government would create **Public Service Trusts** to take on legal responsibility and commissioning powers for demand-led high needs services: adult social care, children’s social care, homelessness, and support for children and young people with SEND.

The Public Service Trust would be governed by a Board with local representatives and would commission services locally, but it would receive funding directly from central government, not from councils. Local authorities would still have an important role to play in standing up for their residents and contributing to the delivery of high-quality services. Pooling financial responsibility at the national level does not mean diminishing the voice of residents at a local level. This model for demand-led high needs services would put them on a financial footing equivalent to the NHS. Introducing Public Service Trusts would not only liberate councils from unsustainable financial pressure, but also provide the platform for much-needed reforms in these services, such as addressing the excessively high profits being made by providers of children’s social care.

A new vision for **liberated local government** in England would focus on the two purposes which it is uniquely able to fulfil: local democracy and place leadership. Fulfilling the local democracy purpose means giving councils genuine autonomy so that they have the capacity and resources to respond to the priorities of local citizens - whether that is filling in potholes or funding community centres and youth services for young people. The purpose of place leadership includes building thriving local communities, partnering with and supporting charities, growing social capital and trust in local areas, providing parks, libraries, community centres and other social infrastructure, and encouraging and enabling people to volunteer in their local communities. Demos, in our essay *The Preventative State*, described these kinds of policy areas as ‘foundational policy’: the social, civic and cultural spaces, activities and

institutions which enable people and communities to flourish. This level of 'foundational policy' can help to prevent problems arising in the first place and has a significant impact on people's overall health and wellbeing. Local government's renewed purpose should be to provide the strong local foundations needed to improve the wider 'social determinants' of community strength and population health and wellbeing.

Councils would continue to be responsible for neighbourhood and administrative services, recognising that these are best delivered at a local level. Combined Authorities, where they exist in England, would have a clear, delineated purpose of delivering local economic growth, focusing on strategic economic policy functions better delivered at a larger geographical scale.

This vision for local government would see *fiscal responsibility* for demand-led high need services shift from local to central government, where risk can be more effectively pooled, and where the resources available to the central state mean that it is possible to meet demand in the long term. Services would still be *delivered* at a local level, where the expertise and insight of local councils can improve outcomes.

Starting the debate about serious reform is urgent because of the crisis in local government finances.

The 'sticking plaster politics' approach to local government finances is running out of road, and is doing serious damage to the social fabric of our society, while demand-led high need services are pushing councils to the edge of bankruptcy and, in many cases, simultaneously delivering poor outcomes. We propose that the government should consult on creating three pilot Public Service Trusts in 2025 in order to test the model and learn lessons about how to ensure they work effectively, with a view to creating more from 2026 onwards.

Any change will be controversial, but we hope that this report starts a frank conversation about the purpose of local government, and what can be done to put local authorities' finances on a sustainable footing.

Without substantial reforms, the alternative is a future in which spending on universal services continues to be cut, and more councils declare effective bankruptcy. Politically, if the government wants to see potholes fixed, high streets improved and the social fabric of communities repaired, structural reforms to local government finances are required.



# A CRISIS ONE HUNDRED AND FIFTY YEARS IN THE MAKING

## LOCAL GOVERNMENT FINANCES IN ENGLAND

The state of local government finances has come to capture the public imagination in recent years. The roll call of councils that have issued section 114 notices since 2018 has hit various parts of the country and councils of different shapes and sizes: Northamptonshire, Slough, Thurrock, Woking, Birmingham.<sup>1</sup>

In particular, the state of Birmingham City Council has drawn public attention. Earlier this year, Birmingham City Council, the most populous local government district in England serving over 1.1 million people, approved a budget which included cuts to almost every service including transport for children with disabilities, libraries and bin collections – the budget even included dimming street lights to save money. At the same time, Birmingham’s council tax will increase by 10% in both 2024-25 and 2025-26.<sup>2</sup>

Many more councils are close to the edge of financial sustainability, with 18 councils relying on Exceptional Financial Support from the government in 2024-25.<sup>3</sup> In total, the government is providing £1.4 billion in Exceptional Financial Support already.<sup>4</sup> This is usually in the form of capitalisation directions: these do not give additional funding to local authorities, but provide special permission to use capital funds (for example, raised by selling assets or property) to top up revenue spending on public services. This is unsustainable as, for example, selling assets

1 Levelling Up, Housing and Communities Committee. Financial distress in local authorities. House of Commons, 29 January 2024, p. 5. Available at <https://committees.parliament.uk/publications/43165/documents/214689/default> [accessed 19/10/2024]

2 Birmingham City Council. Budget proposals 2024/5 and 2025/6. 19 February 2024. Available at [www.birmingham.gov.uk/news/article/1430/budget\\_proposals\\_20245\\_and\\_20256](http://www.birmingham.gov.uk/news/article/1430/budget_proposals_20245_and_20256) [accessed 19/10/2024]

3 Local Government Association. Autumn Budget and Spending Review Submission 2024. 13 September 2024. Available at [www.local.gov.uk/publications/autumn-budget-and-spending-review-submission-2024](http://www.local.gov.uk/publications/autumn-budget-and-spending-review-submission-2024) [accessed 19/10/2024]

4 Hoddinott, S. Local government section 114 (bankruptcy) notices. Institute for Government, 7 August 2024. [www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices](http://www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices) [accessed 19/10/2024]

can only be done once. These and many other councils across England are also being forced to make similar choices to Birmingham about cutting spending on a range of core local services. Substantial, structural reform is needed to change this.

The cause of the current crisis appears obvious: severe cuts in local authority spending during the 2010s. Local authorities spend around 18% less per person today than they did in 2010.<sup>5</sup> However, it would be a mistake to say that all the current problems are due to funding reductions alone.

In fact, in the modern period, section 114 notices were issued for Brent in 1988, Lambeth in 1989, Camden in 1992 and Hillingdon and Hackney in 2000. Going back further in history, from the 'Poplar Rates Rebellion' of the 1920s to the financial crises of many urban councils in the 1970s, there has never truly been a 'stable' period of local government finances.

Even in 2004, a relative high-water mark in economic stability and in the midst of large increases in public spending, local authorities were concerned about spending requirements. In its submission to the Spending Review in 2004, the Local Government Association (LGA) said that local government funding was £800m (£1.4bn in August 2024 prices) short of what was required to deliver services overall.<sup>6</sup>

It is the central thesis of this report that this is because of a lack of clarity about the role and function of local government in England. We have never had a well-functioning system of local government finance because we have never truly agreed what the purpose of local government should be. As a consequence, we have lurched from crisis to crisis, adding ever more complex and convoluted solutions to try and deal with short-term problems, instead of answering the most basic questions: what do we want local government to do, and what resources does it need to do it?

## THE EVOLUTION OF LOCAL GOVERNMENT FINANCES

There has long been a tension in the local government finance system regarding the extent to which local authorities should be financially reliant on local taxes. This was the general assumption in the 19th century: for example, Gladstone wrote in 1869 that "my judgement is very hostile to taxing the Exchequer for local purposes."<sup>7</sup>

Gladstone benefitted from the fact that in the 19th century there was a much clearer separation between central government and local government than there is today. The academic J. A. Chandler refers to 'dual polity values' to describe the situation in the early 19th century: politicians in central government focused on national issues such as defence, imperial policy and trade, while local government, in the form of parishes, focused on local issues such as local roads and administration of the Poor Law (a proto-social security system for those in destitution).<sup>8</sup> Although Parliament did pass laws relating to local areas through Private Acts, these were permissive for specific geographical areas, and it rarely passed legislation mandating local government to fulfil specific functions across the country. Chandler attributes this 'dual polity' perspective to "a deep-seated suspicion of a centralising government widely thought to be an agent more likely to enslave the population of Britain than be a force for the general improvement of society".<sup>9</sup>

5 Ogden, K. and Phillips, D. How have English councils' funding and spending changed? 2010 to 2024. Institute for Fiscal Studies, 7 June 2024. Available at <https://ifs.org.uk/publications/how-have-english-councils-funding-and-spending-changed-2010-2024> [accessed 19/10/2024]

6 Local Government Association. Improving the Quality of Life for Local Communities: Spending Review 2004. 2004. Available at [https://lga.moderngov.co.uk/Data/LGA%20Executive/20040408/Agenda/\\$Item%201%20-%20Appendix.doc.pdf](https://lga.moderngov.co.uk/Data/LGA%20Executive/20040408/Agenda/$Item%201%20-%20Appendix.doc.pdf) [accessed 19/10/2024]

7 Chandler, J. A. Explaining local government: Local government in Britain since 1800. Manchester University Press, 2007, p. 61.

8 Chandler 2007: 4-6.

9 Chandler 2007: 5.

During the 19th century, local authorities with elected councillors emerged in something approaching their modern form, first in urban areas via the Municipal Corporations Act (1835) and then across the rest of England through the creation of county councils (1888) and district councils (1894). Some councils became large and financially successful organisations during this period, like Birmingham Council under the leadership of Joseph Chamberlain; Birmingham's grand Council House, for example, was completed in 1879.

Despite the growth in the size and functions of some councils, 'dual polity values' persisted. Thus "municipalities [created in 1835] were regarded as independent of substantive central supervision apart from the requirement of permission from the Treasury to sell or lease property".<sup>10</sup> Yet politicians began to experience the tension between local autonomy and the desire to implement policy uniformly across the country. Hansard summarises Palmerston as saying in 1854 that he:

*...attached great importance to the principle of local self-government. He thought it was quite impossible to overrate the great national importance of employing the persons connected with the different districts of the country in administering the affairs of those districts, so far as it was possible to do so. He should be very sorry on that ground to place the police of the country under a separate government and control, like that of London. At the same time he thought there should be an inspection in the different localities, in order to secure something like uniformity of system; because if a different system prevailed between the police of one county and of another, there could not be that efficiency which it was essential to produce.<sup>11</sup>*

Of these two principles - "local self-government" and "uniformity of system" - it was the latter which would prevail in the 20th century.

'Dual polity values' affected the local government finance system. Local authorities were responsible for local taxation through the system of 'rates', a tax on domestic and non-domestic properties, and the predecessor of the contemporary council tax and business rates. Local authorities largely had control over the design and collection of rates, and were essentially self-financing. Tony Travers and Lorena Esposito argue that in this period "central government was happy to take a back seat, and allowed local institutions to set and raise local taxes to provide those services which they deemed necessary in their local communities."<sup>12</sup> There was "a presumption towards separate national and local responsibility in paying for their services".<sup>13</sup> Some local authorities, especially in urban areas, were also able to raise significant revenue through publicly-owned utilities such as electricity, gas and water.

Central government initially made few grants to local government, although it did start to introduce some during the 19th century to help pay for new functions, such as spending on police.<sup>14</sup> This began a trend towards increasing grants from the Treasury to local government, which accompanied, and encouraged, greater centralisation. However, all these changes were ad hoc and did not form part of an overall strategy for relations between central and local government. Indeed, part of the reason that central government provided grants to local authorities was due to landowners' complaints about paying rates: landowners actually opposed more central government interference in their local areas, and yet Treasury grants to local

<sup>10</sup> Chandler 2007: 44.

<sup>11</sup> Viscount Palmerston. Debate on Counties and Borough Police. Hansard, 2 June 1854. Available at <https://hansard.parliament.uk/Commons/1854-06-02/debates/f493a0f4-046a-4a7f-affb-00b801b01262/CountiesAndBoroughPolice> [accessed 19/10/2024]

<sup>12</sup> Travers, T. and Esposito, L. The Decline and Fall of Local Democracy: A History of Local Government Finance. Policy Exchange and nef, November 2003, p. 13. Available at [www.localis.org.uk/wp-content/uploads/2003/08/Travers-T-Esposito-L.-The-Divide-and-Fall-of-Local-Democracy.-A-History-of-Local-Government-Finance.pdf](http://www.localis.org.uk/wp-content/uploads/2003/08/Travers-T-Esposito-L.-The-Divide-and-Fall-of-Local-Democracy.-A-History-of-Local-Government-Finance.pdf) [accessed 19/10/2024]

<sup>13</sup> Chandler 2007: 60.

<sup>14</sup> Chandler 2007: 61.

authorities inevitably came with more central control.

The general principle of grants from central government with at least an element of needs-based distribution has a long history. In response to the emerging welfare crisis of the 1920s, the Local Government Act 1929 introduced a block grant with a needs-based formula which included population, the number of children, unemployment and road mileage.<sup>15</sup> In 1948, the Attlee government added further grants to poorer areas through Exchequer Equalisation Grants, which provided additional funding to local authorities with lower rateable values than the average across England and Wales.<sup>16</sup> Although there have been numerous reforms of the system since, the general principles have remained that central government grant funding should (a) reflect local needs through a formula, and (b) play a role in ensuring equalisation between richer and poorer areas. These have tended, however, to be based on providing liquidity to local authorities in the short-term rather than focusing on their long-term needs.

During the 20th century, central government began to take greater control over social policy which had historically been the preserve of local authorities. This included the creation of centralised functions (including the state pension and the NHS), as well as other social services and policy areas delegated to local authorities, but controlled from the centre. Central government provided more funding to local government, but also centralised decisions about how local government should spend money.

First, the functions of local authorities changed dramatically. Responsibility for education was transferred to local authorities in 1902, and subsequently responsibility for housing and planning, adult social care, children's social care and wider children's services. At the same time, productive utilities like electricity and gas were nationalised by the Attlee government, thereby removing a substantial source of revenue for urban authorities. This reduced the level of autonomy for local authorities, with less revenue and greater responsibilities for social services.

Second, grants became an increasingly important part of the local government finance system. As central government gave more responsibilities to local government including education, housing and broader social care duties, it was widely accepted that grant funding from central government was required. This was for two reasons: first, to ensure local government delivered the priorities of central government, and second, to ensure that local authorities in poorer areas had the necessary financial resources to provide these services, recognising that it was not possible for poorer areas to be self-financing. The latter is particularly important in the context of modern local government duties, since there is a correlation between socioeconomically deprived areas and higher needs for services, such as adult social care and children's social care.

Expenditure in Britain by local authorities rose from £147 million in 1919 to £416 million by 1939, due to increased spending on education, housing and roads.<sup>17</sup> Numerous specific grant funding streams existed during this time, partly as a way of ensuring that local authorities spent money on national priorities, including the priorities of individual central government departments.

After the 1929 Local Government Act introduced a block grant from the Treasury to local authorities, the Attlee government augmented this system in 1948 with an equalisation grant which recompensed local authorities with below-average rateable values. Despite concern about the rising levels of central government funding, by the 1970s grants amounted to 66% of local authority income.<sup>18</sup> Central government grants were cut during the 1980s, increased in the 2000s, and were cut again in the 2010s. Today, grants still play an important role in the local government finance system, and central government continues to use 'ringfenced' funding to

<sup>15</sup> Chandler 2007: 149.

<sup>16</sup> Local Government Act 1948. The National Archives. Available at [www.legislation.gov.uk/ukpga/Geo6/11-12/26/contents/enacted](http://www.legislation.gov.uk/ukpga/Geo6/11-12/26/contents/enacted) [accessed 19/10/2024]

<sup>17</sup> Chandler 2007: 148-9.

<sup>18</sup> Chandler 2007: 209.

ensure local authorities fulfil national priorities.

Local authority geographies are not distributed in such a way as to be *economically self-sufficient*. As a consequence, many areas simply lack the economic base from which they could raise funds, even if they had the power to do so. As demands for services have risen from the public, the gap between what is economically possible for local areas to finance and what it is necessary for them to provide has grown. The growing dependence on grant funding provided a way of avoiding this challenge, but it has been brought into sharp relief given the trend since the 1980s of central government reducing grant support.

In England, local property tax has been an important source of revenue for local government for centuries. The system of 'rates' levied on the value of property (land, houses and commercial buildings) was the primary source of revenue for local government in the 19th century, and this is still essentially the system in use today in the form of council tax (domestic property) and business rates (non-domestic property).

What has changed over time, however, is the degree of central government control over these local property taxes. In the 19th century, parishes, councils and counties were responsible for assessing and collecting rates locally. This meant that there was substantial local autonomy over local taxes. However, as local government functions increased during the 19th century, complaints from rate-payers, especially landowners, encouraged central government to take more control. The Local Government Act 1929 abolished rates on agricultural land nationally, undermining the principle of local control.<sup>19</sup> In 1948, the Attlee government took direct control of property valuation, giving this task to valuation officers working for the Inland Revenue.<sup>20</sup> Today, the Valuation Office Agency still performs the function of valuations for council tax and business rates. However, direct central government control has consistently led to delays and postponements of revaluations due to fears of unpopularity with the public. Revaluations were postponed in 1952 and in 1979, for example.<sup>21</sup> Today, council tax valuations in England are still based on property prices from 1991, which benefits households in London and the South East who should pay more as property values have increased over the last thirty years.<sup>22</sup>

This centralising logic continued in the 1980s. Central government introduced rate capping in 1984, despite "widespread opposition... including from Conservative-controlled county councils [that] argued that the government was destroying a bastion that guaranteed the traditional independence of local government".<sup>23</sup> The Audit Commission was also introduced by the Thatcher government to give the centre greater access to data about the financial performance of local government and steer local authorities to carry out their activities in a way that met central government expectations.<sup>24</sup> This centralised approach continues today, albeit in the modified form of making it obligatory for a local authority to have a referendum to raise council tax above specified limits: currently local authorities can only raise council tax by 3%, along with a further 2% for councils responsible for social care, without a referendum.<sup>25</sup>

The Local Government Finance Act 1988 went further still. It abolished the rates system, introducing instead the Community Charge (poll tax) and business rates. The Act nationalised business rates, removing them from the control of local government altogether. The short-

19 Local Government Act 1929. The National Archives. Available at [www.legislation.gov.uk/ukpga/Geo5/19-20/17/section/67/made](http://www.legislation.gov.uk/ukpga/Geo5/19-20/17/section/67/made) [accessed 19/10/2024]

20 Local Government Act 1948.

21 Chandler 2007: 185.

22 Phillips, D. Council tax needs urgent reform – not being frozen in time in 1991. Institute for Fiscal Studies, 6 June 2024. Available at <https://ifs.org.uk/articles/council-tax-needs-urgent-reform-not-being-frozen-time-1991> [accessed 19/10/2024]

23 Chandler 2007: 251.

24 Campbell-Smith, D. Follow the Money: The Audit Commission, Public Money and the Management of Public Services, 1983-2008. Allen Lane, 2008.

25 Department for Levelling Up, Housing and Communities. Local government finance policy statement 2024 to 2025. GOV.UK, 5 December 2023. Available at [www.gov.uk/government/publications/local-government-finance-policy-statement-2024-to-2025/local-government-finance-policy-statement-2024-to-2025](http://www.gov.uk/government/publications/local-government-finance-policy-statement-2024-to-2025/local-government-finance-policy-statement-2024-to-2025) [accessed 19/10/2024]

lived Community Charge was replaced by council tax in 1993, but central government retained significant control over it.

Over the long term, local government has lost control to a significant degree of its local taxes. This has removed a traditional function of the local democratic element of local government in England. When faced with a constrained budget, local authorities are unable to raise additional revenue and must legally deliver centrally mandated services, especially 'high needs' services like adult social care and children's social care. (We use the term 'high needs' in this report; other terms sometimes used include 'acute services' and 'complex services'.) This leaves local authorities with only one option: to cut spending elsewhere, which is exactly what they did during the 2010s in service areas including youth services, libraries, planning and road maintenance.<sup>26</sup> It also directly runs counter to one of the avowed purposes of local government, to meet the expectations of local residents who vote on their priorities through regular elections.

Throughout the 20th century, Parliament passed legislation adding further statutory duties prescribing what services local authorities must provide and how they must provide them. By 2003, Travers and Esposito could write that "local people have little control over local service provision".<sup>27</sup> A review in 2011 identified over 1,200 statutory duties which local authorities are required to fulfil.<sup>28</sup> There has not been a meaningful reduction in the number and scope of these statutory duties, despite the reductions in funding since 2010. Indeed, during the 2010s, Parliament passed two pieces of legislation which added further expensive statutory duties: the Children and Families Act 2014 added duties related to supporting children with special education needs and disabilities (SEND), and the Homelessness Reduction Act 2017 added responsibilities related to supporting people who are homeless or at risk of homelessness. The passing of these Acts in the 2010s, in the middle of a period of significant funding reductions for local authorities, reflects policy makers' preference for the 'public service delivery' purpose of local government. The 'dual polity' values of the 19th century, when MPs rarely passed legislation mandating local authorities to provide specific services, are long gone.

It is universally accepted that the relationship between local need and local government funding today is increasingly breaking down. For example, the LGA has called for a 'reset' in the financial relationship between central and local government.<sup>29</sup> There are three main reasons which explain why local need and local government funding have become disconnected. First, central government chose to stop updating spending needs assessments in 2013, which means that the funding formulas are increasingly out of date.<sup>30</sup> For example, the data included in the needs assessment is still based on 2011, and in some cases 2001, census data, rather than the more recent 2021 census data.<sup>31</sup> Using updated data would increase the needs assessment of, and therefore the funding for, certain areas such as Outer London boroughs (due to population growth and other demographic changes).<sup>32</sup>

Second, because of the way in which central government grant funding was cut in the 2010s, councils in more deprived areas of the country lost a greater proportion of their revenue.<sup>33</sup> A 'Fair Funding Review' for local government, first announced in 2016, has never been implemented.

26 Hodinott, S. and others. Fixing public services: Priorities for the new Labour government. Institute for Government, July 2024, p. 36. Available at [www.instituteforgovernment.org.uk/sites/default/files/2024-07/Fixing-public-services.pdf](https://www.instituteforgovernment.org.uk/sites/default/files/2024-07/Fixing-public-services.pdf) [accessed 19/10/2024]

27 Travers and Esposito. Decline and Fall. 2003. p. 14.

28 Department for Communities and Local Government. Summary of the review of statutory duties placed on local government. June 2011. Available at <https://assets.publishing.service.gov.uk/media/5a79d2ceed915d042206b4a4/1934356.pdf> [accessed 19/10/2024]

29 Local Government Association. Autumn Budget Submission. 2024.

30 Ogden and Phillips. How have English councils' funding and spending changed? 2024.

31 Ogden, K., Phillips, D. and Warner, M. How much public spending does each area receive? Local authority level estimates of health, police, school and local government spending. Institute for Fiscal Studies, 15 August 2023, p. 39. Available at <https://ifs.org.uk/publications/how-much-public-spending-does-each-area-receive-local-authority-level-estimates-health> [accessed 19/10/2024]

32 Ogden, Phillips and Warner. How much public spending does each area receive? 2023. p. 39.

33 Ogden and Phillips. How have English councils' funding and spending changed? 2024.

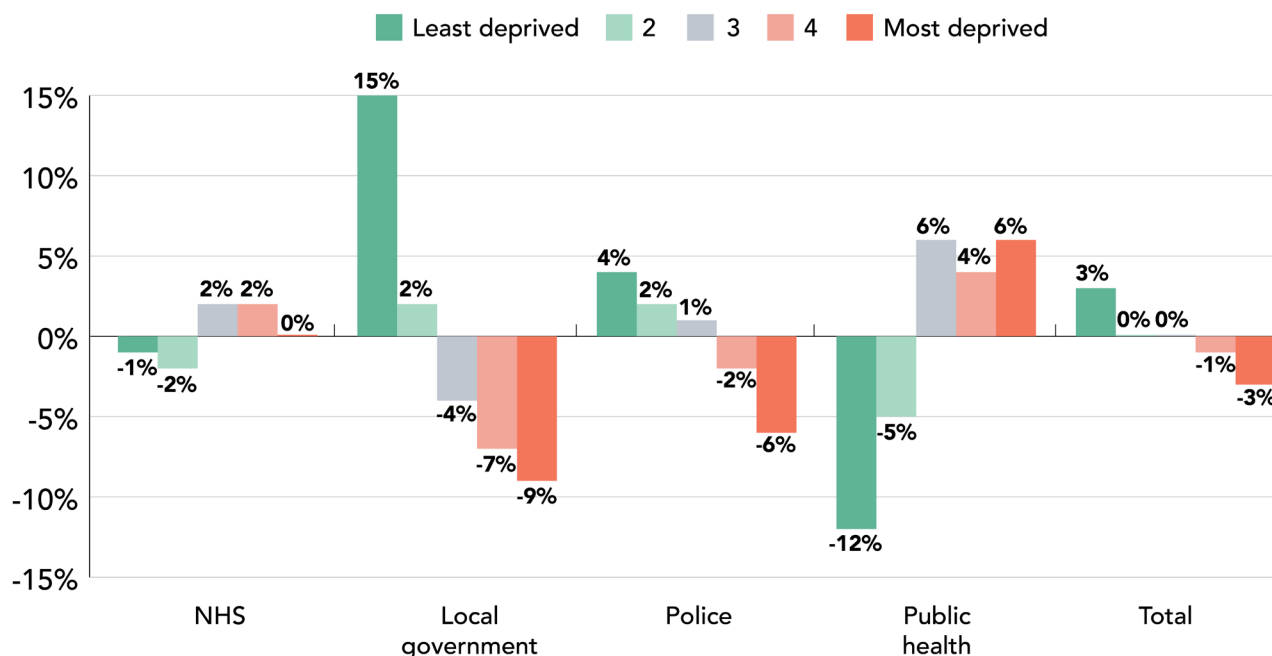
Third, central government made the political decision to put more of the emphasis for spending cuts on local councils compared to central government. In real terms, revenue and capital expenditure per person by central government is 2.4% higher today than it was in 2010.<sup>34</sup> However, local authority expenditure per person is 18% lower.<sup>35</sup> This was a political choice and a more equitable distribution of spending cuts between central and local government could have been undertaken. Another example is provided by the case of the public health grant: responsibility for commissioning public health services was taken out of the NHS and given to local authorities in 2013-14.<sup>36</sup> However, since this change, the public health grant has been cut by 28% in real terms per person between 2015-16 and 2024-25, while NHS spending increased over the same period.<sup>37</sup> This suggests that central government has found it easier to cut spending on the public health grant partly because it became a responsibility of local government. The fact that central government often requires local government to make steeper and deeper spending cuts in times of financial difficulty has been a regular feature of local government finances since the 20th century. It is one of the reasons why placing volatile high needs services in the hands of local authorities, dependent on central government financial support, has been a regular cause of distress for local government finances.

As a result, local authorities in more socioeconomically deprived areas receive less funding than they should based on estimated need: recent work by the Institute for Fiscal Studies (IFS) estimated that the most deprived fifth of areas in England receive 9% less local government funding than their estimated share of needs.<sup>38</sup>

## CHART 1

**The most deprived fifth of areas in England receive 9% less local government funding than their share of estimated needs**

*Difference between funding and share of estimated needs for spending on the NHS, local government, police and public health, by quintile of deprivation. Source: IFS 2023.<sup>39</sup>*



34 Office for Budget Responsibility. March 2024 Economic and fiscal outlook – detailed forecast tables: expenditure. 6 March 2024. Available at <https://obr.uk/efo/economic-and-fiscal-outlook-march-2024> [accessed 19/10/2024]

35 Ogden and Phillips. How have English councils' funding and spending changed? 2024.

36 Patel, N. and others. Options for restoring the public health grant. The Health Foundation, 30 August 2024. Available at [www.health.org.uk/publications/long-reads/options-for-restoring-the-public-health-grant](http://www.health.org.uk/publications/long-reads/options-for-restoring-the-public-health-grant) [accessed 19/10/2024]

37 Patel and others. Public health grant. 2024.

38 Ogden, Phillips and Warner. How much public spending does each area receive? 2023.

39 Ogden, Phillips and Warner. How much public spending does each area receive? 2023.

## ADULT SOCIAL CARE IS PUTTING PRESSURE ON LOCAL GOVERNMENT FINANCES

In England, the single largest area of local government spending is adult social care. Local government has a long history of providing adult social care, but the difference today is that demand has increased significantly, and is projected to increase further. This is partly due to a gradually ageing population, and partly due to a higher proportion of the working-age population having long-term disabilities or health conditions.<sup>40</sup> Adult social care now makes up about 40% of all local government spending (and a higher proportion if just considering councils responsible for social care).

Despite this high proportion of spending, there is significant evidence for rationing of adult social care. Institute for Government analysis shows that, since 2015-16, requests for support for adult social care have increased by 10%, yet the number of people actually receiving publicly-funded support has fallen by 4%.<sup>41</sup> This is partly due to fewer people being eligible because the means test has been frozen in cash terms since 2010-11, despite the recent period of high inflation. There is also a separate needs test for adult social care, with national eligibility criteria set out in the Care Act 2014. However, there remains some local discretion regarding eligibility, and evidence suggests that over time local authorities have raised the needs test threshold in order to save money, restricting adult social care to those with higher needs.<sup>42</sup> Despite the national legislation governing adult social care, there is also evidence that local authorities interpret the legislation differently: IFS analysis found that “in one-in-ten local authorities, fewer than a third of those requesting support ended up receiving some, while another one-in-ten local authorities provided support to more than 70% of those requesting”.<sup>43</sup> This may reflect differences in the level of needs between populations in different areas, but it is also likely to reflect local authorities finding ways to ration the provision of adult social care due to financial concerns.

The overall result is a system which does not work well for anyone. Many citizens are left with unmet needs, unable to live fulfilling lives, with negative impacts on the economy as people leave the workforce, or work fewer hours in order to provide unpaid care. The adult social care workforce is poorly paid, turnover is high and there are a huge number of vacancies - in 2022-23, one in ten jobs in the adult social care workforce were vacant.<sup>44</sup> Councillors and council officers are frustrated because so much time and money is devoted to adult social care that it becomes difficult to fulfil the other purposes of local government, as spending in other services areas is crowded out. A poorly functioning social care system also has negative consequences for other public services such as the NHS: about 45% of people who remain in hospitals after they are deemed medically fit to leave are there due to problems related to the adult social care system.<sup>45</sup>

Fundamentally, providing funding for adult social care through the local government finance system is not designed to meet the needs of England's demographic structure in the 21st century. It is also a service that has grown out of proportion with the economic base of many local authority areas. As long as central government requires local authorities to both fund and commission adult social care locally, it will be difficult for local authorities to be anything other than the 'delivery arm of central government'. Moreover, given the scale of adult social care expenditure in future years, local authorities will be dependent on central government to

40 Department for Work and Pensions. Family Resources Survey: financial year 2022 to 2023. Disability data tables. GOV.UK, 21 March 2024. Available at [www.gov.uk/government/statistics/family-resources-survey-financial-year-2022-to-2023](http://www.gov.uk/government/statistics/family-resources-survey-financial-year-2022-to-2023) [accessed 19/10/2024]

41 Hoddinott and others. Fixing public services. 2024. p. 40.

42 Hoddinott and others. Fixing public services. 2024. p. 41.

43 Emmerson, C., Johnson, P. and Ogden, K. (eds.) The IFS Green Budget. Institute for Fiscal Studies, 10 October 2024, p. 226. Available at <https://ifs.org.uk/publications/green-budget-2024-full-report> [accessed 19/10/2024]

44 Hoddinott, S. and others. Performance Tracker 2023. Institute for Government, 30 October 2023, p. 123. Available at [www.instituteforgovernment.org.uk/publication/performance-tracker-2023](http://www.instituteforgovernment.org.uk/publication/performance-tracker-2023) [accessed 19/10/2024]

45 Hoddinott and others. Fixing public services. 2024. p. 42.



provide resources for this. In turn, central government is likely to insist on control and to remove discretion from local authorities in return for this funding.

## **LOCAL AUTHORITIES' SPENDING HAS BECOME INCREASINGLY CONCENTRATED ON DEMAND-LED HIGH NEEDS SERVICES**

Local authorities have a wide range of responsibilities, from electoral registration to assessing planning applications. Broadly, these can be placed on a spectrum from 'general services' which serve a larger number of residents to 'high needs services' which serve a smaller number of residents who need a greater level of support. For example, 'general services' include libraries, road maintenance and waste collection, while 'high needs services' include adult social care, children's social care and homelessness prevention.

Another important characteristic of high needs services is that they are demand-led: that is, typically there are national eligibility criteria which set out what a local authority must do, for example, if someone is homeless or at risk of homelessness. Spending on demand-led services is inherently uncertain, and therefore harder to forecast, compared to, for example, spending on parks or libraries.

Over the last few decades, local authorities' spending has become increasingly concentrated on high needs services which support children, young people and adults who need additional, publicly-funded support. Specifically, local authorities face demand-led spending pressures related to:

- Adult social care (both for working-age people and for people beyond State Pension Age)
- Children's social care
- Support for children with SEND (and home-to-school transport for children)
- Homelessness-related services, especially temporary accommodation

The first three of these are putting pressure on local authorities with responsibility for social care and education (unitaries and county councils), while spending related to homelessness is putting pressure on councils with responsibility for housing (unitaries and district councils). For example, BBC News reported that Hastings Borough Council - a lower-tier district council within East Sussex - was due to spend £5.6 million on temporary accommodation in 2023-24, a quarter of its entire budget.<sup>46</sup>

Already in 2007, the Lyons Inquiry reported "additional demand pressures including the need to provide social services to increasing numbers of elderly people".<sup>47</sup> In 2012, Barnet Council produced what subsequently became known as the 'Graph of Doom'.<sup>48</sup> It showed that adult social care and children's social care might use up the council's entire budget by 2029-30, due to increasing demand for these two services alongside grant reductions from central government.

46 Buchanan, M. Rising tide of homelessness could bankrupt seaside town. BBC News, 20 October 2023. Available at [www.bbc.co.uk/news/uk-67076914](http://www.bbc.co.uk/news/uk-67076914) [accessed 19/10/2024]

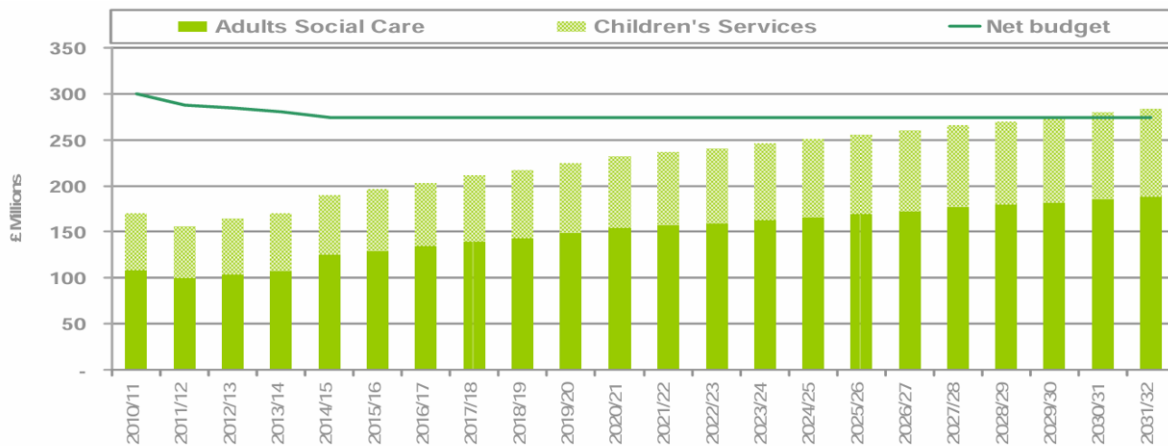
47 Lyons, M. Place-shaping: a shared ambition for the future of local government. Final report of the Lyons Inquiry into Local Government. March 2007, p. 88. Available at <https://assets.publishing.service.gov.uk/media/5a7c093540f0b645ba3c64cb/9780119898545.pdf> [accessed 19/10/2024]

48 Barnet Council. Council Budget 2012-2013: Financial forward plan and capital programme. March 2012, p. 16. Available at [www.barnet.gov.uk/sites/default/files/assets/citizenportal/documents/councilanddemocracy/201213BudgetBook.pdf](http://www.barnet.gov.uk/sites/default/files/assets/citizenportal/documents/councilanddemocracy/201213BudgetBook.pdf) [accessed 19/10/2024]

## CHART 2

Barnet Council's 'Graph of Doom', produced in 2012, predicted that adult social care and children's social care would gradually come to dominate the council's budget

Modelled estimate of Barnet Council's spending on adult social care and children's social care (children's services) compared to its net budget, 2010-11 to 2031-32. Source: Barnet Council 2012.<sup>49</sup>

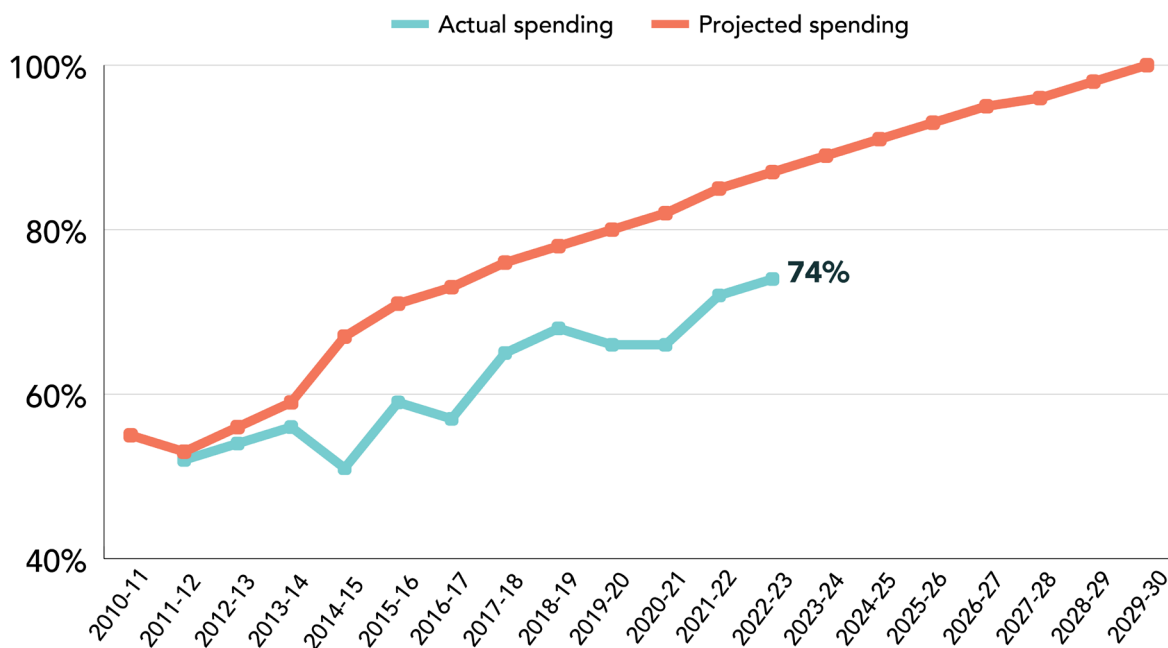


For this report, we analysed what has happened to Barnet Council's spending since 2012. This shows that the 'Graph of Doom' is coming true: adult social care and children's social care combined now account for 74% of the council's spending, and the proportion is gradually rising over time just as predicted in 2012 (albeit at a slightly slower pace).

## CHART 3

Barnet Council projected in 2012 that adult and children's social care might come to dominate their budget, and actual spending shows this is gradually happening

Spending on adult social care and children's social care (combined) as a proportion of Barnet Council's budget / core spending power, 2010-11 to 2029-30. Sources: Barnet Council 2012 and House of Commons Library 2024.<sup>50,51</sup>



49 Barnet Council. Council Budget. 2012. p. 16.

50 Barnet Council. Council Budget. 2012. p. 16.

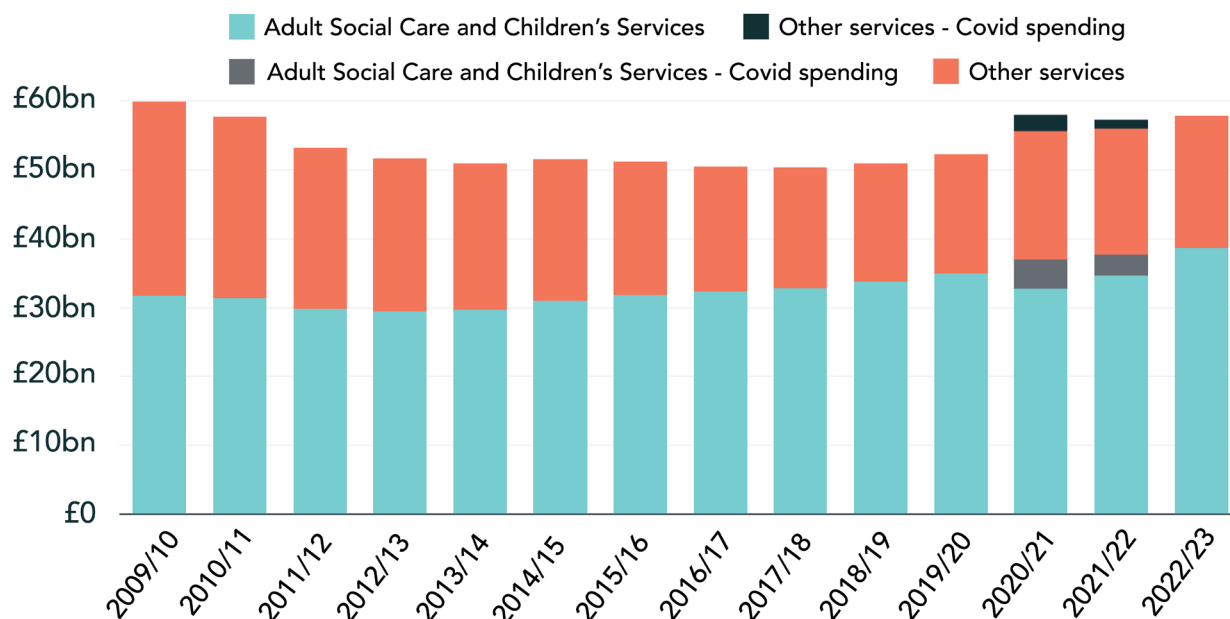
51 Brien, P. Local authority data: finances. House of Commons Library, 18 March 2024. Available at <https://commonslibrary.parliament.uk/local-authority-data-finances> [accessed 19/10/2024]

Across all local authorities, spending on adult social care and children’s social care combined has increased from around half (53%) in 2009-10 to two thirds (67%) of all expenditure in 2022-23.<sup>52</sup>

## CHART 4

### £2 in every £3 spent by local authorities in England now goes on adult social care and children’s social care

Spending by local authorities in England, by area of spending, 2009-10 to 2022-23 (2024-25 prices). Excludes spending on education services, police and public health. Source: Institute for Government 2024.<sup>53</sup>



Spending to support children with SEND has also increased significantly after the passing of the Children and Families Act 2014. Funding for this is included in the ‘high needs block’ of the Dedicated Schools Grant, a ringfenced grant for local authorities to spend on education-related services. Collectively, local authorities in England have a high needs block deficit of around £3 billion.<sup>54</sup> Normally local authorities are not allowed to have a deficit in a given financial year, but unusually MHCLG has allowed local authorities to keep these deficits off their balance sheets via a statutory override.<sup>55</sup> Without this measure, it has been reported that multiple local authorities would be forced to issue a Section 114 notice and declare effective bankruptcy.<sup>56</sup>

Spending on these demand-led services, especially social care, is crowding out other spending. This includes ‘general services’ like road maintenance, but it also includes ‘preventative’ or ‘early intervention’ services, such as Sure Start children’s centres and youth services. Several local authority representatives to whom we spoke during this project told us that they were unable to dedicate resources to ‘early help’ children’s services, as also reported recently by Ofsted, due to

52 Hoddinott and others. Fixing public services. 2024. p. 34.

53 Hoddinott and others. Fixing public services. 2024. p. 35.

54 Bryant, B. and others. Towards an effective and financially sustainable approach to SEND in England. Isos Partnership, County Councils Network and Local Government Association, July 2024. Available at <https://www.countycouncilsnetwork.org.uk/educational-outcomes-for-send-pupils-have-failed-to-improve-over-the-last-decade-despite-costs-of-these-services-trebling-new-independent-report-reveals> [accessed 19/10/2024]

55 Nye, P. SEND spending needs reform to stop local authorities going bust. Institute for Government, 26 January 2024. Available at <https://www.instituteforgovernment.org.uk/comment/send-spending-reform-local-authorities> [accessed 19/10/2024]

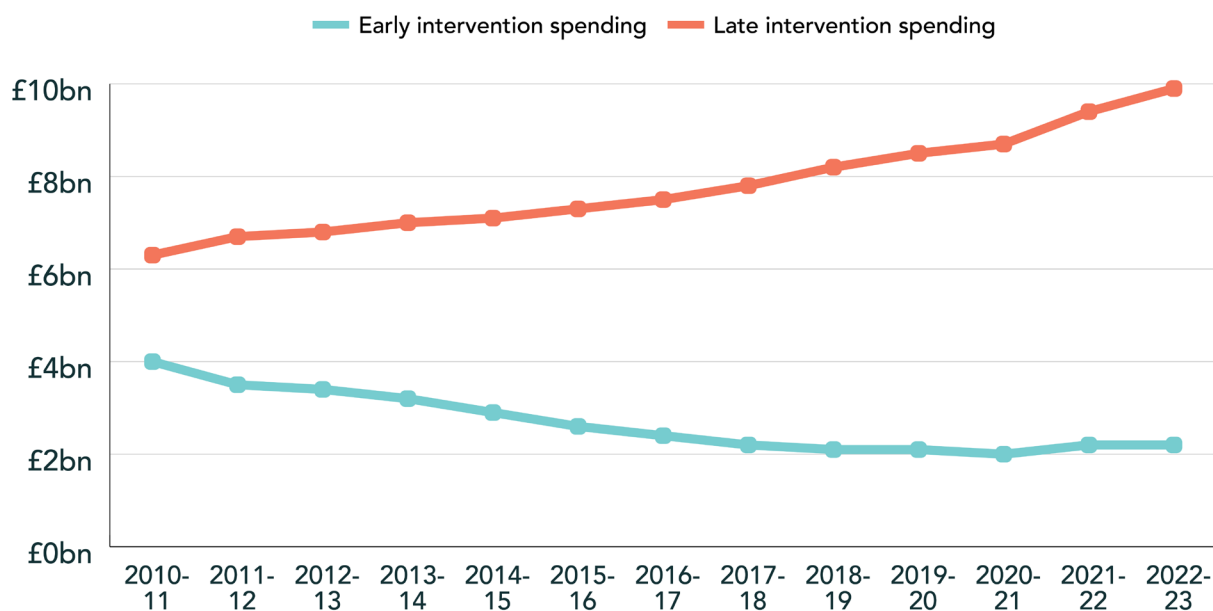
56 Rudgewick, O. ‘Numerous authorities’ at S114 risk due to DSG deficits. Public Finance, 31 October 2023. Available at [www.publicfinance.co.uk/news/2023/10/numerous-authorities-s114-risk-due-dsg-deficits](http://www.publicfinance.co.uk/news/2023/10/numerous-authorities-s114-risk-due-dsg-deficits) [accessed 19/10/2024]

spending pressures for children, young people and adults with more acute or complex needs.<sup>57</sup> As an example of the overall effect, since 2010 local authorities have increased spending on 'late intervention' children's services (for example, children in care) and simultaneously reduced spending on 'early intervention' children's services (for example, Sure Start children's centres).

## CHART 5

### Late intervention spending increasingly dominates spending on children's services in England

Real terms spending on children's services by local authorities in England, by stage of intervention, 2010-11 to 2022-23 (2022-23 prices). Source: Pro Bono Economics.<sup>58</sup>



Demand-led high needs services share some common features. They are vital services for people who are vulnerable or facing difficult life circumstances. They are national priorities, set by central government, and therefore local authorities have very limited discretion. They all have a clear statutory framework which instructs local authorities what they must do, which includes inspection and legal challenge in order to try to protect vulnerable people. And they are all 'demand-led', that is, local authorities are required to provide support to all residents in their area with needs which meet the eligibility thresholds, without regard to the local authority's overall budget.

When combined with reductions in central government grant funding since 2010, the effect is that local authorities are increasingly only able to fulfil the purpose of *public service delivery*. This is actively undermining other purposes of local government, such as local democracy. A councillor to whom we spoke for this research told us that, for example, residents want the council to spend more money on fixing potholes, but that the council is unable to do so because of the financial pressures from demand-led high needs services. This battle between meeting the expectations of local residents, with increasingly limited financial resources, and meeting the expectations of central government which requires local authorities to prioritise the

<sup>57</sup> Ofsted. The multi-agency response to children and families who need help. GOV.UK, 7 October 2023. Available at [www.gov.uk/government/publications/the-multi-agency-response-to-children-and-families-who-need-help/the-multi-agency-response-to-children-and-families-who-need-help](http://www.gov.uk/government/publications/the-multi-agency-response-to-children-and-families-who-need-help/the-multi-agency-response-to-children-and-families-who-need-help) [accessed 19/10/2024]

<sup>58</sup> Larkham, J. Struggling against the tide: Children's services spending, 2011-2023. Pro Bono Economics, September 2024. Available at [www.probonoeconomics.com/struggling-against-the-tide](http://www.probonoeconomics.com/struggling-against-the-tide) [accessed 19/10/2024]

demands of national legislation, is putting local authorities in a lose-lose position. This can also create a related problem with council tax: if rises in council tax rates largely (or entirely) fund demand-led high needs services used by a small minority of residents, the majority of residents may become frustrated as they do not see things getting better in their local area as a result of paying higher council tax. It also means that local residents are essentially subsidising the delivery of nationally determined services, leaving less resources for local priorities.

Currently, most local authorities with social care responsibilities will almost certainly use any increase in non-ringfenced funding to pay for demand-led high needs services. This emphasises the extent to which local authorities have become the 'delivery arm of central government' in doing vital work to support vulnerable people in their local communities. But this was never planned nor the stated ambition for local government: it is merely the result of decades of ad hoc central government decisions on resourcing local authorities.

Most worryingly, this lack of clarity about the purpose of local government has made it easier for central government to withdraw financial support from local authorities. By focusing on its priorities, delivering nationally mandated services, and ignoring the responsibilities of local authorities to meet the needs of local residents and provide place leadership, central government has been able to leave local authorities increasingly responsible for financing critical public services such as adult social care.

## **THERE IS A LACK OF RISK-POOLING IN DEMAND-LED HIGH NEEDS SERVICES**

One of the several problems related to demand-led high needs services delivered by local government is the lack of effective risk-pooling. This is true between local authorities, and between local authorities and central government.

The legal structure of demand-led high needs services places statutory duties on individual local authorities - for example, regarding supporting vulnerable children through children's social care (unitaries, county councils) or supporting people who are homeless or at risk of homelessness (unitaries, district councils). This means that the financial risk is borne by each individual local authority, with very limited sharing or pooling of that risk.

For example, in children's social care, individual local authorities bear the financial risk of the rising costs of children's social care placements. LGA research has shown that in 2022-23 councils paid for over 1,500 placements costing £10,000 or more per week – more than 10 times the number in 2018-19.<sup>59</sup> It is widely accepted that the market in children's social care has broken down, with private providers able to make excess profits: the Competition and Markets Authority stated in 2022 that "the largest private providers of placements are making materially higher profits, and charging materially higher prices, than we would expect if this market were functioning effectively".<sup>60</sup>

In addition, a large majority (82%) of social workers report that the complexity of the needs of children and families has increased since the pandemic; rising costs are partly related to this increase in the complexity of needs.<sup>61</sup> Yet it is individual local authorities that bear the financial risk of factors such as market failure and increased needs. During the course of this research project, people told us about examples such as local authorities competing with each other for children's social care placements, thereby bidding up prices. Another example is the situation where a local authority faces higher-than-expected costs due to, for example, a child with very

59 Local Government Association. Autumn Budget Submission. 2024.

60 Competition and Markets Authority. Children's social care market study final report. GOV.UK, 10 March 2022. Available at [www.gov.uk/government/publications/childrens-social-care-market-study-final-report/final-report](http://www.gov.uk/government/publications/childrens-social-care-market-study-final-report/final-report) [accessed 19/10/2024]

61 Johnson, C. and others. Longitudinal study of local authority child and family social workers (Wave 5). Department for Education, July 2023, p. 75. Available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1170189/Longitudinal\\_study\\_of\\_local\\_authority\\_child\\_and\\_family\\_social\\_workers\\_Wave\\_5.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1170189/Longitudinal_study_of_local_authority_child_and_family_social_workers_Wave_5.pdf) [accessed 19/10/2024]

complex needs moving into the local authority area, which cannot be predicted or budgeted for - a result of the demand-led nature of these services.<sup>62</sup> The government is piloting 'Regional Care Cooperatives' for children's social care partly in order to address some of these concerns: the 2023 strategy *Stable Homes, Built on Love* argued that "a regional model will have the financial force and shared risk to plan ahead and invest in homes and models of care that individual local authorities currently lack."<sup>63</sup>

Similar problems affect unitary and district councils with regards to supporting people who are homeless or at risk of homelessness. Because the legal framework imposes duties on individual local authorities, the risk of rising costs is not pooled between them. This is a significant problem for some district councils: as mentioned above, Hastings Borough Council has been severely affected by rising homelessness, with 500 households living in temporary accommodation at an annual cost of over £5 million, set against the council's core spending power of £14 million.<sup>64,65</sup> Despite the small size of this individual district council, the risk of rising demand relating to homelessness as a result of problems in the local housing market is not pooled with other district councils or with East Sussex County Council.

Similar points apply to the lack of risk-pooling between local authorities and central government. Because the legal framework requires each local authority to be responsible for providing demand-led high needs services, central government does not bear the financial risk of rising demand: for example, the increase in the number of children with SEND is a national trend, yet the financial problems affect individual local authorities. Similarly, central government is not bearing any of the risk relating to rising 'unit costs', as has happened in children's social care.

As a result, the burden of financial risk on each individual local authority is very high. In a period of funding reductions since 2010, it is not surprising that local authorities have sought to manage this financial risk by cutting spending where they are confident they are able to do so legally, while maintaining or increasing spending on demand-led high needs services.

Risk pooling requires clarity about the future responsibilities of local government so that mechanisms for collaboration can be put in place and implemented over a long period of time. It also requires consistency in funding in order to give councils the confidence to pool resources knowing that they will be able to draw down on those resources when they need them.

## **LOCAL AUTHORITIES ARE MORE RELIANT ON COUNCIL TAX FOR INCOME, BUT COUNCIL TAX DEBT IS RISING**

Since 2015, many local authorities have chosen to increase council tax to raise revenue, although keeping below the referendum-related limits imposed by central government. Despite this - and partly as a result of the period of high inflation in the last few years - average council tax bills are only around 2% higher in real terms than in 2010-11.<sup>66</sup> This compares with a real-terms increase of over 60% between 1997-98 and 2010-11.<sup>67</sup>

What has changed, however, is local authorities' reliance on council tax as a source of revenue. A combination of reductions in central government grants, a slight real-terms increase in council tax and an expansion of the tax base (via a higher number of properties) means that council tax

62 Competition and Markets Authority. Children's social care. 2022.

63 Department for Education. *Stable Homes, Built on Love: Implementation Strategy and Consultation*. GOV.UK, February 2023. Available at [https://assets.publishing.service.gov.uk/media/642460653d885d000fdade73/Children\\_s\\_social\\_care\\_stable\\_homes\\_consultation\\_February\\_2023.pdf](https://assets.publishing.service.gov.uk/media/642460653d885d000fdade73/Children_s_social_care_stable_homes_consultation_February_2023.pdf) [accessed 19/10/2024]

64 Hastings Borough Council. Finance Peer Review report. 28 July 2023. Available at [www.hastings.gov.uk/news/latest/peer-review](http://www.hastings.gov.uk/news/latest/peer-review) [accessed 19/10/2024]

65 Brien. Local authority data: finances. 2024.

66 Ogden and Phillips. How have English councils' funding and spending changed? 2024. p. 32

67 Ogden and Phillips. How have English councils' funding and spending changed? 2024. p. 32

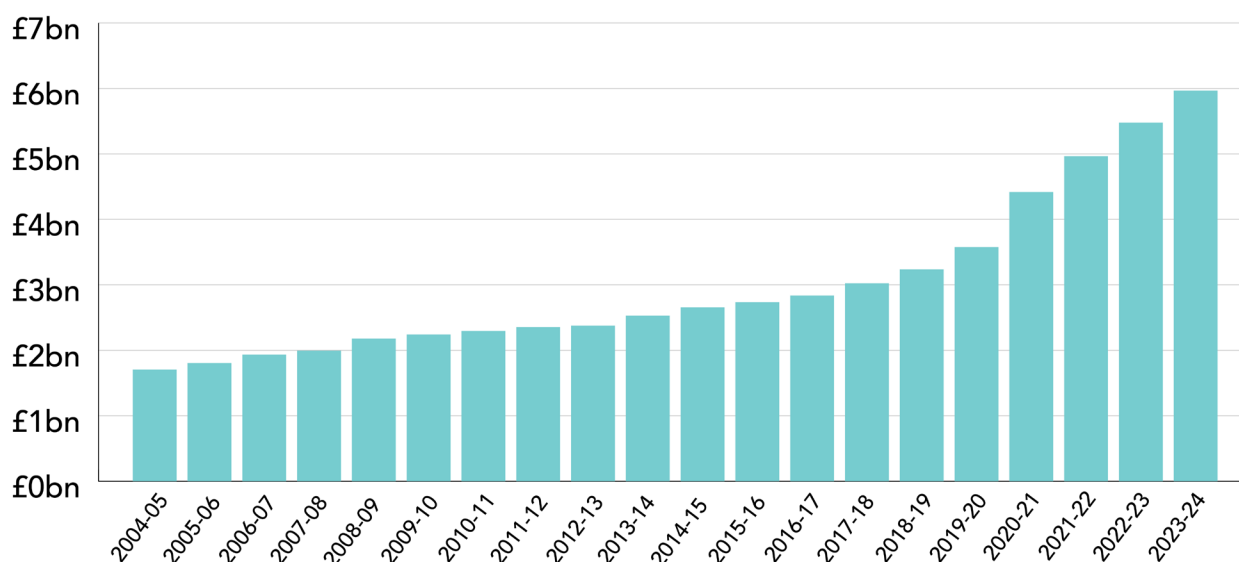
now accounts for around 53% of local authorities' core funding, up from 36% in 2010-11.<sup>68</sup>

There are, however, several concerns with the situation which has developed. First, a greater reliance on council tax is problematic for local authorities in more socioeconomically deprived areas, where the tax base is smaller and people may be less able to afford an increase in council tax. Second, council tax in England is still based on property values in 1991, despite its increased importance within the overall local government finance system. Partly as a result, council tax hits lower-value properties the most: for example, a household living in a Band A (lowest value) property in London would pay, on average, over 0.5 per cent of its value, compared to a household in a Band H (highest value) property which would pay just over 0.1 per cent.<sup>69</sup> Because the design and valuation of council tax is controlled by central government, local authorities are unable to change this. Third, there is increasing concern about council tax arrears: the cumulative amount owed in council tax arrears is currently rising by about £500 million every year, and has now reached a total of £6 billion. Council tax debt is a more significant problem for local authorities in socioeconomically deprived areas.<sup>70</sup>

Again, the lack of clarity about the purpose of local authorities has meant that we have never had a long term conversation about the balance of revenue streams that councils need. A greater emphasis on local democracy and place leadership would naturally lean towards giving local councils greater control over taxes (and perhaps the ability to introduce new revenue streams) in their areas. A greater emphasis on public service delivery would lean towards central government funding and redistributive mechanisms to enable public services to be effectively funded and inequalities reduced. Unfortunately, so far the changes in local authority revenue streams have been driven by financial pressures on central government due to economic shocks, rather than because of a long-term plan for local government finances.

## CHART 6

**Council tax debt has now reached £6 billion, up from £3.5 billion before the pandemic**  
*Cumulative council tax arrears in England, 2004-05 to 2023-24. Source: Ministry of Housing, Communities and Local Government.<sup>71</sup>*



68 Ogden and Phillips. How have English councils' funding and spending changed? 2024. p. 32.

69 Murphy, L., Snelling, C. and Stirling, A. A Poor Tax: Council tax in London: Time for reform. IPPR, March 2018. Available at [www.lse.ac.uk/geography-and-environment/research/lse-london/documents/Reports/a-poor-tax-council-tax-in-london.pdf](http://www.lse.ac.uk/geography-and-environment/research/lse-london/documents/Reports/a-poor-tax-council-tax-in-london.pdf) [accessed 19/10/2024]

70 Centre for Social Justice. Still Collecting Dust: Ensuring fairness in council tax collection. August 2024, p. 36. Available at [www.centreforsocialjustice.org.uk/library/still-collecting-dust](http://www.centreforsocialjustice.org.uk/library/still-collecting-dust) [accessed 19/10/2024]

71 MHCLG. Council Tax statistics. GOV.UK, 19 June 2024. Available at [www.gov.uk/government/collections/council-tax-statistics](http://www.gov.uk/government/collections/council-tax-statistics) [accessed 19/10/2024]

## CONCLUSION

The state of local government finances is gradually becoming worse year by year. This is affecting some local authorities more than others, partly because the finance system is becoming increasingly disconnected from local need due to the decision to stop updating funding formulas in 2013. However, all local authorities are spending an ever-higher proportion of their budgets on demand-led high needs services which support a relatively small number of people overall. This is true of unitaries and county councils, which provide adult and children's social care, as well as district councils due to spending on homelessness and temporary accommodation. The legal responsibility for supporting vulnerable people or those with complex needs rests almost entirely on individual local authorities, and the risk is not pooled between them or between local government and central government. Due to reductions in grants from central government, local authorities are gradually becoming more reliant on council tax, yet council tax is based on out-of-date property valuations from 1991 and council tax debt is rising.

What all these challenges have in common is the lack of clarity around the purpose of local government. The relationship between central and local government has never been appropriately delineated which has meant that in many cases both sides have spoken at cross-purposes rather than with a shared language and set of priorities. This lack of clarity has led to essentially arbitrary (and in some cases irrational) divisions of responsibilities between central and local government, leaving local government responsible for service areas (such as adult social care) which are beyond its capabilities to resource sustainably. The lack of clarity about the purpose of local government has also made it easier for central government to 'withdraw' from funding councils, leaving local authorities to carry ever greater levels of financial burden and reducing their discretion to use their resources to meet the priorities of local residents. Arguably, the inability of local authorities to have discretion over how they spend their money due to the need to meet central government requirements has further sapped engagement in local democracy.

The next chapter looks at some of the historical lack of clarity about the purpose of local government in England.



# WHAT IS THE PURPOSE OF LOCAL GOVERNMENT IN ENGLAND?

As we have shown, the lack of clarity about the purpose of local government in England is one of the major causes of the current crisis in local government finances. To be blunt, you cannot fix local government finances unless you know what local government is supposed to do. In this view we follow Sir Michael Lyons, who wrote in his 2007 review of local government: "Reform of the local government finance system should not be seen in isolation, but must be part of the process of empowering the kind of local government that we want."<sup>72</sup>

In this section, we set out four broad visions for the purpose of local government based on historical analysis and contemporary views, plus a fifth, 'place-shaping', as defined by the reports of the Lyons Inquiry.<sup>73</sup> These purposes are not mutually exclusive, but they are distinct and are sometimes in conflict with each other.

<sup>72</sup> Lyons. Place-shaping. 2007. p. 20.

<sup>73</sup> Lyons. Place-shaping. 2007. p. 60.

**TABLE 1**  
FOUR PURPOSES OF LOCAL GOVERNMENT

|                             | LOCAL DEMOCRACY                             | PLACE LEADERSHIP   | PUBLIC SERVICE DELIVERY  | LOCAL ECONOMIC GROWTH  |
|-----------------------------|---|--|--|--|
| Accountability              | Local voters                                | Local voters   | Central government and service users   | Central government (and Combined Authorities)  |
| Funding implications        | Local taxes controlled by local politicians | Mix  | Grants from central government   | Grants from central government; local tax related to economic growth to provide 'incentive' for pursuing local economic growth |
| Size and geographical scale | Small - community identity                  | Small to medium - facilitating collaboration between citizens, businesses, public services and charities | Large - current local authority size for 'efficiency' of public service delivery | Large unitary, county or Combined Authority size - 'functional economic area'  |

## PURPOSE #1 LOCAL DEMOCRACY

The 'local democracy' purpose emphasises the role of local authorities as democratic institutions, with local councillors elected to make decisions about how to govern their local area.<sup>74</sup> This can be seen as a form of self-government, enabling citizens to govern their own communities through elected political representatives at the local level. In our roundtables and engagement with local councillors, the importance of this purpose was often repeated, with concern that it was not appreciated by central government. In this purpose, local government also has an important role in providing a forum for collective discussion and decision-making regarding how to spend public money in the local area. To fulfil this purpose, accountability for decisions taken by local government should be primarily to the local electorate, rather than to central government or inspectorates, for example. Therefore, local preferences, as expressed through local representative democracy, are more important than a notion of 'national uniformity'.<sup>75</sup> As Sir Michael Lyons wrote in the 2007 Inquiry's final report:

74 Palese, M. Democracy Made in England: Where Next for English Local Government? Electoral Reform Society, 9 March 2022. Available at [www.electoral-reform.org.uk/latest-news-and-research/publications/democracy-made-in-england-where-next-for-english-local-government](http://www.electoral-reform.org.uk/latest-news-and-research/publications/democracy-made-in-england-where-next-for-english-local-government) [accessed 19/10/2024]

75 Copus, C. English Local Government: Neither Local nor Government, in Territorial Consolidation Reforms in Europe. 2010, pp. 118-119. Available at [https://projects.mcrit.com/foresightlibrary/attachments/article/1269/Wollmann,%20H.%20\(2010\)%20Territorial%20Consolidation%20Reforms%20in%20Europe.pdf](https://projects.mcrit.com/foresightlibrary/attachments/article/1269/Wollmann,%20H.%20(2010)%20Territorial%20Consolidation%20Reforms%20in%20Europe.pdf) [accessed 19/10/2024]

I believe that we face choices in the way in which we are governed. At one extreme, we can be governed in a way that places a high value on people receiving similar standards of service, regardless of where they live. On the other hand we can be governed in a way where it is accepted that standards of service may vary from place to place, *where this is a consequence of local choice.* [italics added]<sup>76</sup>

This purpose tends to be associated with a preference for smaller local authorities rather than larger ones, so that they can be based on community identity and be more responsive democratically.<sup>77,78</sup> It is also associated with a preference for formal functions and powers to be placed under local democratic control.

There are two main implications for the system of local government finance. First, if the purpose of local government is to provide local representative democracy, elected councillors should have a high degree of autonomy to decide how to *spend* money, in order to respond to local citizens' priorities. Second, since historically local government has always had a role in the system of local taxation in England, this purpose implies that local government should also have a high degree of control regarding *raising* revenue through the design and overall level of local taxes.

## **PURPOSE #2** **PLACE LEADERSHIP**

The 'place leadership' purpose sees local government as an institution which can effectively support local communities by taking a leadership role across its local area. While the previous local democracy purpose focuses on what could be described as the 'formal' decision-making powers of local democratic government, this purpose focuses more on the 'informal' powers of local government. This includes, for example, direct engagement with citizens, working with voluntary, community and social enterprise (VCSE) organisations, convening stakeholders across a local area, working closely with other public services and with central government, reflecting and shaping local identity, promoting local arts and culture, facilitating social capital and social cohesion, and helping to respond to disagreements or conflicts within or between communities. This is sometimes described as a 'convening role', as the final report of the Lyons Inquiry argued:

*Local government – at political and managerial levels – also needs to exercise leadership of the whole community, creating a shared agenda that recognises the roles that different partners can play in bringing it to life. Convening requires local government to be able to identify a direction of travel, articulate a sense of the future and enthuse others to be part of a common mission.*<sup>79</sup>

The language used by Lyons here bears comparison with the ideas developed by Mariana Mazzucato and others around 'mission-driven government'.<sup>80</sup> Building on these ideas, Camden Council has developed four long-term Missions, and has set out how the council will use its place leadership role to help achieve them by acting as a 'mission steward':

<sup>76</sup> Lyons. Place-shaping. 2007. p. 58.

<sup>77</sup> Sandford, M. Unitary local government. House of Commons Library, 12 June 2024, p. 52. Available at <https://researchbriefings.files.parliament.uk/documents/CBP-9056/CBP-9056.pdf> [accessed 19/10/2024]

<sup>78</sup> Copus, C., Leach, S. and Jones, A. Bigger is not better: the evidenced case for keeping 'local' government. 14 October 2020. Available at [www.districtcouncils.info/bigger-is-not-better-the-evidenced-case-for-keeping-local-government](http://www.districtcouncils.info/bigger-is-not-better-the-evidenced-case-for-keeping-local-government) [accessed 19/10/2024]

<sup>79</sup> Lyons. Place-shaping. 2007. p. 17.

<sup>80</sup> Mazzucato, M. Mission Critical: Statecraft for the 21st Century. Institute for Innovation and Public Purpose, May 2024. Available at [www.ucl.ac.uk/bartlett/public-purpose/publications/2024/may/mission-critical-statecraft-21st-century](http://www.ucl.ac.uk/bartlett/public-purpose/publications/2024/may/mission-critical-statecraft-21st-century) [accessed 19/10/2024]

*Achieving the missions needs collective action from across Camden's public sector, businesses, voluntary and community sector, anchor institutions and citizens. To support debate and collaboration between these different groups, and help spot opportunities to create greater impact, an organisation needs to convene these conversations and broker knowledge and information sharing. As leader of place, the Council is well placed to play this role.<sup>81</sup>*

Unlike other public services such as schools or the police, local government is able to take on this role as a 'place leader' as it is not focused purely on service delivery, but can take a holistic view of local citizens and the local area. The Lyons Inquiry argued that local authorities should have a "leadership and influencing role to ensure that the efforts of all agencies are focused on the outcomes of greatest importance to local people".<sup>82</sup>

The place leadership purpose, like the local democracy purpose, implies that the size of local authorities should reflect local identities and communities - although the 'leadership' role also implies that they should not be too small so that they can effectively convene and work with other public services, for example. The number and scope of formal functions matters somewhat less for this purpose, but local authorities do need to have the time and financial resources to perform the 'place leadership' role effectively - too many local authorities today lack the necessary resources to be able to do this.

In some geographical areas, elements of the 'place leadership' purpose, like convening stakeholders, may be taken on by a Mayor and a Combined Authority. However, this should be the result of constituent local authorities choosing to pool their resources to do this. Place leadership includes strengthening and working with local communities, and this is likely to be more effective working at a local and neighbourhood (hyperlocal) level, rather than at a regional level.

Regarding the local government finance system, to take a 'place leadership' role local authorities should have access to flexible funding over which they have discretion, as well as contributing to the decisions of other public services and local organisations through their leadership role. However, because this purpose is not as closely tied to local democracy, arguably how the money is raised matters less - in principle it could be based on central government grants, in addition to local taxes.

### **PURPOSE #3**

#### **DELIVERY ARM OF CENTRAL GOVERNMENT**

The 'delivery arm of central government' purpose sees local authorities' primary purpose as delivering nationally mandated public services such as adult social care or crisis support such as homelessness (providing these services either directly 'in house', or by commissioning private or third sector providers). The phrase 'delivery arm of central government' is commonly used to describe how central government perceives local government, although it is almost always used negatively, as in this quote from an MP speaking in 2010 (and therefore before the reductions in funding during the 2010s):

81 Camden Renewal Commission. Developing renewal missions in Camden. 2021. Available at [https://camdenrenewal.com/wp-content/uploads/2021/12/Developing-renewal-missions-in-Camden\\_Renewal-Commission-Report-2021.pdf](https://camdenrenewal.com/wp-content/uploads/2021/12/Developing-renewal-missions-in-Camden_Renewal-Commission-Report-2021.pdf) [accessed 19/10/2024]

82 Lyons. Place-shaping. 2007. p. 3.

*I was a councillor for five years, and in that time I became increasingly frustrated with Government interference, much of which prevent my colleagues and me from doing our job. It is for that reason that local government has often been described as a delivery arm of central Government. We often took decisions not because they were the right ones for our community, but because the Government had told us that that was what they wanted us to do and they applied pressure through directives, centrally set targets, inspection regimes and the final sanction of taking away grants.*

- Mark Pawsey MP, House of Commons, 29 June 2010<sup>83</sup>

The reality is that central government has used local government as a 'delivery arm' for a long time, arguably since the early 1900s and increasingly after 1945. Unintentionally, central government itself has revealed this bias in its own publications. For example, New Labour's White Paper on local government was titled 'Strong Local Leadership - Quality Public Services'.<sup>84</sup> It essentially described the role of local government as delivering public services, overseen by the central state. Its references to local government finances were primarily through the prism of funding those centrally mandated services, rather than enabling discretion to meet the priorities of local residents. There are three methods which central government often uses to ensure that local authorities act as a 'delivery arm': creating statutory duties through legislation; providing ringfenced funding which must be used for a specific purpose; and using inspections and targets.

For politicians, civil servants and others who see local government's main purpose as being the 'delivery arm of central government', this purpose has clear implications for the size, functions and funding of local authorities. This purpose prioritises high-quality and efficient public services: this in turn means that larger local authorities are preferred, because there are opportunities to improve capacity and management (to deliver high-quality services) and because there are opportunities to save money (by delivering services more efficiently). For example, the academic Colin Copus argues that the general trend towards larger local authorities, for example via unitarisation, is related to a 'technocratic' desire for efficiency:

*English councils are not units of local-self government, which have emerged from, and represent, identifiable communities of place, acting as powerful mechanisms for local self-determination. Rather, they are often artificially created, administrative conveniences, with boundaries that reflect the technocratic criteria of population numbers required for efficient service delivery and central government needs for easy communication with, and control over, local government.*<sup>85</sup>

In order to fulfil this purpose, the functions of local authorities are often determined by the priorities of central government at the time, whether this is building more houses (as in the 1950s) or supporting children and young people with SEND (as in the 2010s and 2020s).

National uniformity is also highly valued because central government wants a consistently high standard of public service delivery to ensure 'fairness' for all citizens. Differences between local areas are criticised as a 'postcode lottery'.<sup>86</sup> Proponents argue that 'national standards' are essential. Opposition to central government priorities regarding building infrastructure is described as 'nimbyism'.

83 Hansard. 29 June 2010: Column 779. Available at <https://publications.parliament.uk/pa/cm201011/cmhansrd/cm100629/debtext/100629-0014.htm#10062987000089> [accessed 19/10/2024]

84 Department for Transport, Local Government and the Regions. Strong Local Leadership - Quality Public Services. HM Government, December 2001.

85 Copus, C. English Local Government: Neither Local nor Government, in Territorial Consolidation Reforms in Europe. 2010, pp. 97-98. Available at [https://projects.mcrit.com/foresightlibrary/attachments/article/1269/Wollmann,%20H.%20\(2010\)%20Territorial%20Consolidation%20Reforms%20in%20Europe.pdf](https://projects.mcrit.com/foresightlibrary/attachments/article/1269/Wollmann,%20H.%20(2010)%20Territorial%20Consolidation%20Reforms%20in%20Europe.pdf) [accessed 19/10/2024]

86 Lyons. Place-shaping. 2007. p. 55.

This purpose also has implications for the funding system. In this view, local authorities should, first and foremost, spend money based on the priorities of central government, not the priorities of local citizens. This means that local authorities should be accountable primarily to central government (either the Treasury or individual government departments). Providing ringfenced funding is a method used to ensure local authorities deliver on national priorities. On the revenue side, this purpose implies that, since local authorities are really only a 'delivery arm', their control over local taxation should be minimised; central government should design the overall taxation system, and then give money to local authorities to deliver national priorities. This purpose also tends to be accompanied by some redistribution between richer and poorer places: this is because central government often wants the same level of service to be available for every person who needs that service regardless of where they live, and since poorer places often have higher needs with fewer local resources, redistribution or 'equalisation' is necessary.

## **PURPOSE #4**

### **LOCAL ECONOMIC CHAMPION**

A fourth purpose which is sometimes proposed for local government is being a 'local economic champion'. For example, in a policy document published in 2012 about the business rates retention scheme, central government said that the policy would "give councils every possible reason to use the influence they have over planning, investment in skills and infrastructure and their relationship with local businesses to create the right conditions for local economic growth."<sup>87</sup> Similarly, the Lyons Inquiry argued in 2007 that "local government has an important role to play in fostering economic prosperity"<sup>88</sup> In 2012, Lord Heseltine recommended that "local authorities should have a new overarching legal duty to have regard to economic development in the exercise of all their activities and functions"<sup>89</sup> There is significant continuity in this respect as the Labour Party's 2024 manifesto included a commitment to introduce "a new statutory requirement for Local Growth Plans that cover towns and cities across the country", relevant for all Combined Authorities and County areas with devolution deals.<sup>90,91</sup> Indeed, this was an important reason for introducing the model of Mayoral Combined Authorities in the first place. George Osborne, speaking in 2015, said in a speech about the government's approach to devolution:

*Here's the deal: we will hand power from the centre to cities to give you greater control over your local transport, housing, skills and healthcare. And we'll give the levers you need to grow your local economy and make sure local people keep the rewards.<sup>92</sup>*

There are two related problems with this purpose: the size and functions of local authorities, and the tensions with the other purposes of local government in England.

It is often stated that many local authorities in England do not match functional economic areas, and are too small or too fragmented to promote economic growth in a meaningful way.

87 Department for Communities and Local Government. Business rates retention: Policy statement. GOV.UK, November 2012. Available at [https://assets.publishing.service.gov.uk/media/5a79e68bed915d6b1deb42a1/Business\\_rates\\_retention\\_policy\\_statement.pdf](https://assets.publishing.service.gov.uk/media/5a79e68bed915d6b1deb42a1/Business_rates_retention_policy_statement.pdf) [accessed 19/10/2024]

88 Lyons. Place-shaping. 2007. p. 356.

89 The Rt Hon the Lord Heseltine of Thenford. No stone unturned in pursuit of growth. GOV.UK, October 2012. Available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf) [accessed 19/10/2024]

90 The Labour Party. Change: Labour Party Manifesto 2024. June 2024, p. 40. Available at <https://labour.org.uk/wp-content/uploads/2024/06/Labour-Party-manifesto-2024.pdf> [accessed 19/10/2024]

91 The Labour Party. Power and partnership: Labour's plan to power up Britain. March 2024. Available at <https://labour.org.uk/wp-content/uploads/2024/03/Power-and-partnership-Labours-Plan-to-Power-up-Britain.pdf> [accessed 19/10/2024]

92 Sandford, M. Devolution to local government in England. House of Commons Library, 8 March 2024. Available at <https://researchbriefings.files.parliament.uk/documents/SN07029/SN07029.pdf> [accessed 19/10/2024]

A typical critique refers to “horizontal fragmentation, when multiple councils with the same responsibilities cover a single local economy, and vertical fragmentation, when multiple councils with different responsibilities cover the same geography.”<sup>93</sup> Proposals for restructuring local government in England to ensure it aligns with ‘economic geography’ date back at least as far as the Redcliffe-Maud report of 1969, which proposed large unitary local authorities for most of England.<sup>94</sup>

The argument is also often made that local authorities in their current form lack the necessary devolved functions to promote economic growth such as transport, infrastructure and investment policy. The Blair government introduced Regional Development Agencies to encourage local economic growth, implicitly suggesting it did not think local authorities were the right vehicle to achieve this purpose. Since 2010, the introduction of Mayoral Combined Authorities is also a response to these critiques of existing local authorities, attempting to create a tier of local government in England with a larger scale and more devolved policy functions relating to economic growth.

The other problem is the obvious tension between these different purposes. For example, the ‘local democracy’ purpose sometimes comes into conflict with the ‘local economic champion’ purpose, for example if local residents oppose a housing development or new infrastructure being built in the local area.

Similarly, there is a tension between public service delivery and being a local economic champion when it comes to utilising limited financial resources. Rising demand for spending on demand-led high needs services, for example, has tended to crowd out spending in other policy areas since 2010. IFS research estimates that local authorities cut spending on ‘planning and development’ by 58% from 2010-11 to 2019-20, while spending on children’s social care increased during the same period.<sup>95</sup> This is a well-known problem. In 2007, before the global financial crisis, the Lyons Inquiry reported that “there is a specific concern that the combination of limitations on revenues and the focus on specific service improvements has tended to crowd out councils’ role in economic development.”<sup>96</sup> Similarly, Lord Heseltine argued in 2012 that “local authorities have come to focus on social provision at the expense of economic development”, arguing that the structure of legal duties prescribed by central government “reinforces a belief that for local authorities economic development is secondary to their social functions”.<sup>97</sup> Although many would argue that high-quality public services are a foundation for economic growth, local economic development often requires long-term patient finance and financial stability. Meeting the needs of volatile, demand-led public services often undermines the ability of local authorities to carry out the sort of long-term financial planning that economic development requires.

The decisions of central government since 2010 have effectively forced local authorities to focus on public service delivery at the expense of promoting local economic growth. Despite this, the disagreement as to whether promoting economic growth is, or should be, an important purpose of local authorities in England remains.

93 Breach, A. and Bridgett, S. Centralisation Nation: Britain’s system of local government and its impact on the national economy. Resolution Foundation, September 2022. Available at <https://economy2030.resolutionfoundation.org/reports/centralisation-nation> [accessed 19/10/2024]

94 Hansard. Royal Commission On Local Government (Redcliffe-Maud Report): Volume 784: debated on Wednesday 11 June 1969. UK Parliament. Available at [https://hansard.parliament.uk/Commons/1969-06-11/debates/34167cb9-2748-480b-986a-ee30df159b1d/RoyalCommissionOnLocalGovernment\(Redcliffe-MaudReport\)](https://hansard.parliament.uk/Commons/1969-06-11/debates/34167cb9-2748-480b-986a-ee30df159b1d/RoyalCommissionOnLocalGovernment(Redcliffe-MaudReport)) [accessed 19/10/2024]

95 Ogden and Phillips. How have English councils’ funding and spending changed? 2024. p. 11.

96 Lyons. Place-shaping. 2007. p. 81.

97 Lord Heseltine. No stone unturned. 2012. p. 50.



## **'PLACE-SHAPING' IN THE LYONS INQUIRY**

In 2004-2007, Sir Michael Lyons led an Inquiry into Local Government. In the final report of the Inquiry, Lyons recommended that the future purpose of local government should be 'place-shaping', which he defined as "the creative use of powers and influence to promote the general well-being of a community and its citizens".<sup>98</sup> This definition is intentionally very broad, and includes all four of the purposes identified in this chapter. According to Lyons, it "encapsulates a wider, strategic role for local government rather than one solely focused on service provision, and it more fully recognises that it has a unique responsibility for its local community and its local area."<sup>99</sup> The final report of the Inquiry argued that local authorities were not able to fulfil this purpose of 'place-shaping' in 2007 as central government control over local authorities sometimes "crowd[ed] out place-shaping, reducing the role of local government to a set of silo-based service activities".<sup>100</sup>

The final report of the Lyons Inquiry was published in 2007, at what turned out to be a high-water mark for public spending in the UK - although as noted above, even then, there were concerns about the financial sustainability of local councils. Since then local government finances have been negatively impacted by the 2007-08 global financial crisis, steep reductions in funding during the 2010s, the COVID-19 pandemic and the 2021-23 inflation shock. If the purpose of 'public service delivery' was already crowding out the purpose of 'place-shaping' in 2007, this is certainly true of the situation today.

The history of local government since 2010 is one in which delivery of public services - especially services for children, young people and adults with high needs - has indeed 'crowded out' the other purposes of local government, as Lyons described. Although the purpose of 'place-shaping' as set out in the Lyons Inquiry may be good in theory, the reality since 2007-08 is that it is increasingly accurate to describe local authorities as a 'delivery arm of central government'. Without changes, this trend will continue for the foreseeable future.

We therefore need to have a debate about the purpose(s) of local government in England. Currently, 'public service delivery' is clearly the primary purpose, and is crowding out the other three possible purposes of 'local democracy', 'place leadership' and 'local economic champion'. Demand-led high needs services are using up an increasing proportion of local authorities' financial resources and preventing them from fulfilling the extensive 'place-shaping' purpose described by Lyons. If we collectively want to see local government do more than just public service delivery - as many stakeholders we spoke to for this project said they do - fundamental reforms are required.

## **WHAT DOES THE FUTURE LOOK LIKE ON OUR CURRENT PATHWAY?**

Before turning to what those reforms should look like, it is first worth considering a plausible future scenario for local authorities in England without any changes over the course of this Parliament. Change is not by any means inevitable: there is always a strong temptation to reach for the pack of sticking plasters, and this is exactly what central government has been doing over the last few decades. However, this approach is just storing up further problems for the future, and as the situation deteriorates further, it actually makes reform increasingly hard to achieve.

There are three serious problems which we can identify as being likely without policy changes. First, increasing debts and council tax arrears for local authorities. Second, increasingly inadequate funding which will almost certainly lead to local authorities issuing further Section

98 Lyons. Place-shaping. 2007. p. 60.

99 Lyons. Place-shaping. 2007. p. 78.

100 Lyons. Place-shaping. 2007. p. 5.



114 notices. Third, the proportion of spending on demand-led high needs services will increase, continuing the trend since 2010.

Regarding increasing deficits and debts for local authorities, there are two areas of major concern: deficits related to supporting children and young people with SEND, and council tax arrears. The total cumulative deficit (debt) related to SEND spending already stands at £3 billion, and could rise to £5 billion by 2025-26.<sup>101</sup> Currently, MHCLG has put in place a statutory override that allows local authorities to keep this SEND-related debt off their balance sheet until March 2026.<sup>102</sup> If the statutory override expires, multiple councils would likely be forced to issue Section 114 notices. Bournemouth, Christchurch and Poole Council has publicly warned that this is the case, noting that if the SEND-related deficit were taken into account the council would have negative reserves.<sup>103</sup> On the other hand, extending the statutory override beyond 2026 will result in ever-increasing local authority debt (without policy changes).

In addition, the local government finance system is gradually becoming more reliant on council tax as the main source of income, after cuts to central government grants in the 2010s. Since council tax is becoming more important, it is a concern that council tax debt is growing by around £500 million annually. There is a real risk that, as council tax rises to help keep local authorities' finances afloat, council tax arrears could also increase over time as well, reducing the amount of money actually available to councils, especially in more socioeconomically deprived areas.

The second serious problem is inadequate funding to meet rising demand and rising costs, especially for demand-led high needs services. IFS analysis of the public spending plans put in place by Jeremy Hunt when he was Chancellor suggested that there would have to be real-terms cuts for unprotected services including local government of around 2%-3% per year over the course of this Parliament (2024-25 to 2028-29).<sup>104</sup> It is possible that the Chancellor, Rachel Reeves, will announce higher public spending than this, either at the 2024 Budget or the 2025 Spending Review, although it will be difficult to do this while also meeting the current fiscal rules. The County Councils Network recently published a report estimating the gap between local authorities' funding and spending pressures over the course of the Parliament under the illustrative scenario of there being no policy changes.<sup>105</sup> The report assumes central government grant funding will remain flat in cash terms (a real-terms cut, as per the IFS analysis). In a scenario where local authorities raise council tax by 3% each year, the report estimates that local authorities face an annual funding gap of £3.9 billion in 2025-26, rising to £11.6 billion by 2029-30.<sup>106</sup> Most of this annual funding gap is a result of forecasted increases in spending on adult social care and children's social care.<sup>107</sup> This analysis suggests that, over the Parliament, more local authorities will be forced to issue Section 114 notices as a result of rising spending demand for social care.

101 Bryant and others. Towards an effective and financially sustainable approach to SEND in England. 2024.

102 Department for Levelling Up, Housing and Communities. Explanatory memorandum to the local authorities (capital finance and accounting) (England) (amendment) (No. 2) Regulations 2022. GOV.UK, 2022. Available at [www.legislation.gov.uk/ukxi/2022/1328/pdfs/ukxiem\\_20221328\\_en.pdf](http://www.legislation.gov.uk/ukxi/2022/1328/pdfs/ukxiem_20221328_en.pdf) [accessed 19/10/2024]

103 Carey, A. Council warns of likely section 114 notice if Dedicated Schools Grant statutory override not extended. Local Government Lawyer, 17 January 2024. Available at [www.localgovernmentlawyer.co.uk/education-law/394-education-news/56141-council-warns-of-likely-section-114-notice-if-dedicated-schools-grant-statutory-override-not-extended](http://www.localgovernmentlawyer.co.uk/education-law/394-education-news/56141-council-warns-of-likely-section-114-notice-if-dedicated-schools-grant-statutory-override-not-extended) [accessed 19/10/2024]

104 Boileau, B. Public service spending. Institute for Fiscal Studies, 7 March 2024. Available at <https://ifs.org.uk/sites/default/files/2024-03/Public-service-spending-Bee-Boileau.pdf> [accessed 19/10/2024]

105 County Councils Network. The outlook for council finances this Parliament. 3 October 2024. Available at [www.countycouncilsnetwork.org.uk/failure-to-address-54bn-funding-black-hole-could-leave-councils-as-little-more-than-care-authorities-by-the-end-of-decade](http://www.countycouncilsnetwork.org.uk/failure-to-address-54bn-funding-black-hole-could-leave-councils-as-little-more-than-care-authorities-by-the-end-of-decade) [accessed 19/10/2024]

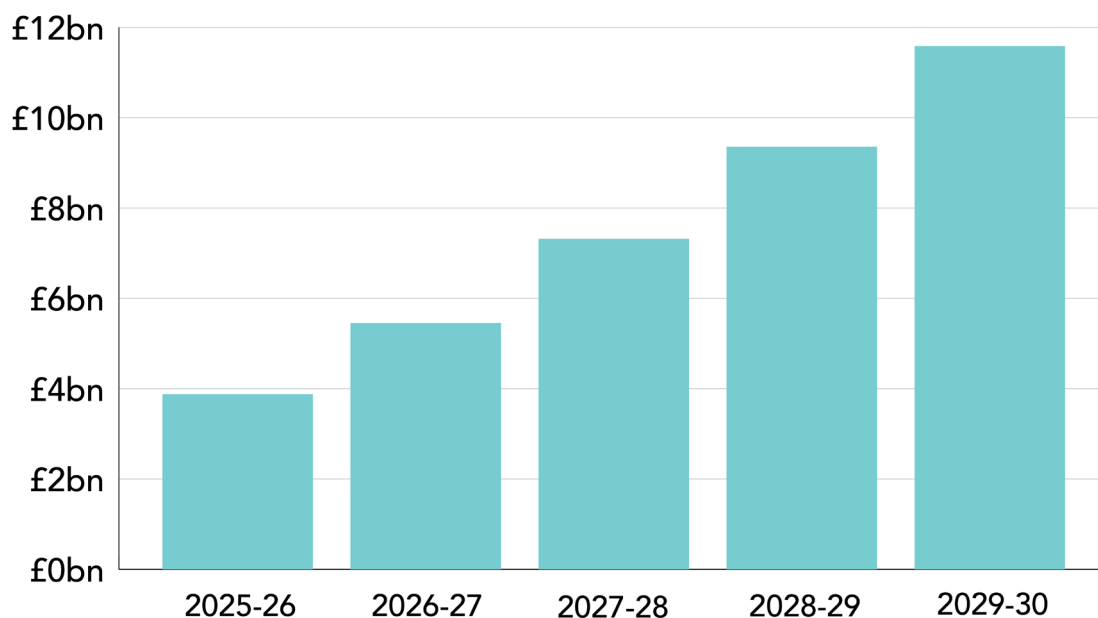
106 County Councils Network. The outlook for council finances this Parliament. 2024.

107 County Councils Network. The outlook for council finances this Parliament. 2024.

## CHART 7

Local authorities in England face a projected annual shortfall of £11 billion by the end of the current Parliament, mainly due to predicted increases in spending on adult social care and children's social care

Estimated annual funding gap of local authorities in England, 2025-26 to 2029-30, including modelled 3% annual council tax increase. Source: PwC, Pixel Financial Management and County Councils Network.<sup>108</sup>



Third, along with rising debt and a growing funding gap, we would also expect to see a continuation of the trend since 2010 that local authorities' spending is becoming increasingly concentrated on demand-led high needs services. This means even greater cuts to general services like libraries, youth services and road maintenance. Local authorities will not be able to continue this approach forever, but it probably is possible to cut more of these services over the next five years. Hampshire County Council, for example, announced in December 2023 that it would "undertake an exercise to establish the legal minimum service levels across all services to understand any further options for service changes or reductions to close the budget gap to 2025-26".<sup>109</sup> Without changes, it is likely that Hampshire and other local authorities could be forced to try to reduce spending to 'legal minimum service levels', which in practice implies cuts to general services that tend to have fewer detailed legal protections.

This future scenario comes with political risk for the government. Citizens are likely to get increasingly frustrated with paying higher council tax, while they see their local areas and general services continue to get worse. To take a specific example, the Labour Party's manifesto argued that "potholes cratering our roads are a visible sign of the decline after 14 years of Conservative rule".<sup>110</sup> In polling commissioned by the LGA and conducted in June 2024, which asked respondents about their satisfaction with various council services, 59% of people said they were either "very dissatisfied" or "fairly dissatisfied" with their council's road maintenance. This is a direct result of the crisis in local government finances: local authorities have been forced to cut spending on road maintenance since 2010, and it is difficult to see this changing without

<sup>108</sup> County Councils Network. The outlook for council finances this Parliament. 2024.

<sup>109</sup> Hampshire County Council. Financial Update and Budget Setting and Provisional Cash Limits 2024/25. 12 December 2023. Available at <https://democracy.hants.gov.uk/documents/s114838/Financial%20Update%20and%20Budget%20Setting%20and%20Provisional%20Cash%20Limit%20202425.pdf> [accessed 19/10/2024]

<sup>110</sup> The Labour Party. Change: Labour Party Manifesto. 2024. p. 33.

changes in the local government finance system. There is a serious risk that citizens are just as frustrated about potholes in roads, libraries being closed and high streets declining at the end of this Parliament as they were at the beginning.

Taking these trends together, this is a bleak picture for local government in England. Even more than now, local authorities will be forced to focus on their 'public service delivery' purpose, and their 'local democracy' and 'place leadership' purposes will be even further diminished. Unless this is the future we want for local government in England, substantive reforms are necessary.

## THE 'STICKING PLASTERS'

The scenario sketched above is the kind of future facing local government in England without any changes. Broadly speaking, there are three 'sticking plasters' which the government could consider in the short term to keep the system from collapsing.

- 1. A significant real-terms increase in central government grant funding for local authorities.** In any scenario, it is clear that local government needs greater resources. However, ideally these should be tied to a more clearly articulated purpose for local government. Depending on which calculation is used, £11 billion per year could be necessary to plug the current 'gap' in funding. This seems unlikely in the current circumstances given limited fiscal headroom. It also flies in the face of forty years of experience where local government has *never* been sustainably resourced by the centre to deliver services on its behalf. It also ignores the fact that a top-up of funding for local government does not take into account future liabilities based on demographic pressures and the volatility of future demand.
- 2. Smaller adjustments in the local government finance system to avoid more local authorities issuing Section 114 notices.** This could involve a variety of smaller changes and tweaks in the overall system to try to avoid more local authorities having to issue Section 114 notices. Some of these could be helpful, like updating some of the formulas which determine allocations for local authorities to reflect the latest data from the 2021 census. Others include extending the statutory override for SEND-related deficits beyond 2026, issuing further emergency or short-term grants, or using more capitalisation directions. Although these types of measures might help in the short term, they will not solve the structural problems. Spending will continue to become increasingly concentrated on demand-led high needs services, while other general services will continue to be targeted for spending cuts, reducing people's satisfaction with their local areas.
- 3. Reduce the number and the scope of centrally mandated statutory duties.** In the absence of higher funding, another possible policy direction would be explicitly to aim to reduce the number and/or the scope of statutory duties which local authorities are required to fulfil. In theory, this could involve reviewing all the statutory duties local authorities are required to meet (over 1,200 the last time they were counted). However, in reality it is the scope of duties relating to demand-led high needs services which are the main causes of upward pressure on local authorities' spending. Changes would need to give local authorities more flexibility to spend less on adult social care, children's social care, SEND support and homelessness - for example, allowing local authorities to tighten eligibility requirements so that they do not have to support as many people. We believe that this is unlikely to be successful for three reasons. First, from a citizen perspective, there is clear evidence that adult social care is already being rationed, which in practical terms makes getting support a difficult and frustrating process.<sup>111</sup> Second, from a policy perspective, reducing eligibility to, for example, social care could result in worse outcomes in the future, or higher demands

111 Hoddinott and others. Fixing public services. 2024. p. 40.

for spending elsewhere (such as NHS spending). Third, it would be politically controversial: the political narrative attacking the idea of a 'postcode lottery' would be powerful. Policy decisions over many years suggest that we collectively value principles around uniformity and fairness for all, which result in central government passing legislation with universal entitlements which all local authorities are required to fulfil. Giving more flexibility to local authorities - which is what reducing the scope of statutory duties means - would likely be seen as 'unfair' and therefore unacceptable.

None of these 'sticking plasters' would fundamentally address the fiscal challenges local authorities are facing but would enable the current system to limp on in its current form. However, we think structural reforms are needed to provide a long-term solution to the crisis in local government finances. In the next chapter, we outline a new vision for local government and make policy proposals for how to achieve it.

# LIBERATED LOCAL GOVERNMENT

## A NEW VISION FOR COUNCILS

In this chapter, we set out a new vision for local government and a set of policy proposals for the local government finance system designed to help achieve this. These ideas are designed to stimulate a conversation about the purpose of local government in England in the 21st century, and how to reform the finance system in order to enable local government to fulfil that purpose. Not everyone will agree with our proposals, but we hope that they will help to move the conversation forward. Currently, there is a lack of clarity about the purpose of local government, and as a consequence the finance system has numerous sticking plasters unsuccessfully attempting to hold it together. This is not sustainable.

As we have argued throughout this paper, long-term financial sustainability for local government can only come about if we have a sense of clarity about the purpose of local government. We believe that we must develop an optimistic vision for local government that plays into the strengths of local authorities, as place leaders bringing local people together around shared priorities.

### **THE CASE FOR LIBERATED LOCAL GOVERNMENT**

We call this vision 'liberated local government'.

It is a vision of local government where local authorities are able to focus on using their insights to strengthen the social, economic and environmental foundations of local areas - something that Demos called 'foundational policy' in our essay *The Preventative State*.<sup>112</sup>

<sup>112</sup> Curtis, P., Glover, B. and O'Brien, A. *The Preventative State: Rebuilding our local, social and civic foundations*. Demos, 25 April 2023. Available at <https://demos.co.uk/research/the-preventative-state-rebuilding-our-local-social-and-civic-foundations> [accessed 19/10/2024]

A new vision for liberated local government in England rests on two well-established purposes, as described in the previous chapter: 'local democracy' and 'place leadership'.

Fulfilling the 'local democracy' purpose means enabling local authorities to have the capacity and resources to respond to the priorities of local citizens - whether that is filling in potholes or funding community centres and youth services for young people. Previous Demos research with parents, for example, found a high level of awareness of the gradual decline in local spaces and activities available for their children, and in our research parents told us improving this would be a priority for them.<sup>113</sup> The 'local democracy' purpose includes local elections, but must go beyond these to other forms of citizen participation: some local authorities have experimented with citizens' juries or participatory budgeting, helping to build a more collaborative democracy.<sup>114</sup>

Place leadership includes policy areas like building thriving local communities, partnering with and supporting charities, building social capital and trust in local areas, providing parks, libraries, community centres and other social infrastructure, maintaining roads and pavements, promoting and supporting local culture, and encouraging and enabling people to volunteer in their local communities.

This will require cultural change within local authorities and a reset in the relationship with central government. In some cases, local authorities have become used to being public service delivery agents, associated with delivering services in silos, rationing budgets and doing things to, not with, citizens. However, there is a wealth of existing good practice and ideas which local authorities can draw on as they focus on these purposes of local democracy and place leadership. Councils across England have adopted new, relational ways of working with communities, from Wigan to Gateshead to Barking and Dagenham. Demos recently published a green paper, *Taking Back Control: Proposals for how to give power and agency back to our communities*, which explores how to strengthen, grow and develop new and existing community-led institutions.<sup>115</sup> New Local has an extensive library of case studies and reports on community power and the Community Paradigm.<sup>116</sup>

This vision of liberated local government must be accompanied by giving back to local authorities genuine choice over local taxation and local spending. We discuss this in more detail later in this chapter.

To achieve this, we need to liberate local government from financial responsibilities for volatile high need services which have crushed its ability to respond to the views of local voters and to make long-term preventative investments.

Instead of giving local authorities a wide range of financial responsibilities, most of which it has little discretion over, we argue that a more focused set of responsibilities for local councils but with greater freedom to make decisions and respond to the needs of local residents would be preferable. These would be particularly focused on areas such as the local environment, culture and the arts, community cohesion and supporting children and young people, where early intervention is essential. Local government's role would be to provide the strong foundations to tackle the 'social determinants' of community strength and population health and wellbeing.

This vision for local government would see *fiscal responsibility* for demand-led high need services shift from local to central government, where risk can be more effectively pooled, and

113 Phillips, A., Bush, L. and Walcott, S. Wall to Wall Support: Joining up public services and housing for vulnerable children, young people and families. Demos, 7 December 2023. Available at <https://demos.co.uk/research/wall-to-wall-support-joining-up-public-services-and-housing-for-vulnerable-children-young-people-and-families> [accessed 19/10/2024]

114 Cummins, C. Locating Authority: A vision for relational local government. Demos, 1 February 2022. Available at <https://demos.co.uk/research/locating-authority-a-vision-for-relational-local-government> [accessed 19/10/2024]

115 O'Brien, A. Taking Back Control: Proposals for how to give power and agency back to our communities. Demos, 12 June 2024. Available at <https://demos.co.uk/research/taking-back-control-proposals-for-how-to-give-power-and-agency-back-to-our-communities> [accessed 19/10/2024]

116 New Local. Community Paradigm. (no date). Available at [www.newlocal.org.uk/community-paradigm](http://www.newlocal.org.uk/community-paradigm) [accessed 19/10/2024]

where the resources available to the central state mean that it is possible to meet demand in the long term. Services would still be *delivered* at a local level, like the NHS, where the expertise and insight of local authorities can improve outcomes. Below, we set out ideas on how this could be achieved in a way that creates strong local partnerships while avoiding fiscal risk being shifted onto local authorities.

We believe that the benefits from this new vision would be multifaceted. First, it would be practical and based on the real resources available to local authorities. Ultimately, demand-led high needs services can never be made to fit the uneven geographies of local authorities. To try and make local authorities economically viable so that they primarily depend upon their own resources to deliver these services would require such large local authorities that they would severely reduce local democratic accountability. Central government is better placed to resource these services and be able to smooth over the inequalities between different regions as well as ride significant economic shocks. Second, it would help to restore local democracy and give real power back to local residents. Increasingly, voters do not see local elections as important because decisions are mostly made from the centre with councils simply having to implement the consequences of national policy choices.<sup>117</sup> Our vision would return genuine discretion back to local government and give voters genuine choices at local elections. Third, it would play to the strengths of local authorities, rather than dividing responsibilities based on historical circumstances which are long out of date. We believe that this would strengthen satisfaction with local government, as councils would have financial responsibility for those activities where they can make a positive difference.

## **THE PURPOSE OF COMBINED AUTHORITIES SHOULD BE TO PROMOTE LOCAL ECONOMIC GROWTH**

In our proposals, the primary purpose of Combined Authorities would be to promote local/regional economic growth through economic policy functions which are better suited to the larger scale of a functional economic area. This would build on the existing strengths of Combined Authorities.

At the moment, this economic purpose of Combined Authorities is fairly clear. There is, however, increasing interest in giving more policy functions to Combined Authorities. Much of the conversation around devolution focuses on giving more powers to Mayors and Combined Authorities.

In our view, there is a risk that this approach might dilute the purpose of Combined Authorities. Policy makers could risk repeating history by asking Combined Authorities to do too many different things, especially when many of them are new institutions.

Where a Mayor, Combined Authority and constituent local authorities choose to take their own initiative - for example, as Andy Burnham, the Greater Manchester Combined Authority and constituent local authorities have done with the issue of homelessness - this should of course be welcomed.

We recognise that some parts of England may never be part of a Combined Authority. Cornwall, for example, has a single unitary council and it may not become part of a larger Combined Authority. Where this is the case, the local authority will need to fulfil multiple purposes (local democracy, place leadership and local economic growth).

There are important policy questions regarding the relationships between constituent local authorities and Combined Authorities in the future. These are outside the scope of this paper, but we hope to address them in future work at Demos.

117 Local Government Information Unit. What is turnout? Why is it so low in local elections? 4 April 2024. Available at <https://lgiu.org/blog-article/what-is-turnout-why-is-it-so-low-in-local-elections> [accessed 19/10/2024]

## SHORT-TERM STABILISATION TO LAY THE PLATFORM FOR LIBERATED LOCAL GOVERNMENT

Before we consider the long-term policy changes that are required for liberated local government, there are some short-term stabilisation measures that central government should implement to lay the platform for the financial sustainability of local government.

- 1. Update the formulas used to distribute funding from central government to local authorities in England.** At the moment, funding distribution is based on formulas not updated since 2013, and which in some cases include data from as far back as 2001. Updating the formulas to include data from the 2021 census would help areas which have seen above-average population growth, for example. This would address some of the inequities in the current funding system. Changing the distribution of funding will inherently have winners and losers, but making these changes is the right thing to do as part of 'fixing the foundations'.
- 2. Simplify funding by reducing the number of siloed, ringfenced funding schemes and combining these into larger, more flexible grants.** Currently, there are too many small grants given to local authorities which are inflexible and short-term, reducing local authorities' ability to make genuine decisions. Central government should resist the temptation to announce new funds to get news headlines, such as the Levelling Up Parks Fund (total value £9 million).<sup>118</sup> Parks and green spaces are a core responsibility of local government, and should be included in their overall grant settlement so that local authorities can decide what they want to fund and plan how they are going to spend money over the medium term.
- 3. Start a consultation on how to implement the manifesto commitment to replace business rates.** Currently business rates are an important part of the local government finance system, and so proposals to replace them need to be consulted on with the local government sector.
- 4. Start a consultation on reforming council tax, including revaluation.** In England, the system of council tax is still based on property values from 1991. Overall, this benefits households in London and the South East, and disadvantages households in the Midlands and the North. It is politically challenging to run a revaluation exercise, and therefore it should also be accompanied by reform to the banding system. At the moment council tax is 'unfair' in the sense that tax rates (as a percentage) are lower on more expensive properties. Reform and revaluation, packaged together, should be possible. The Welsh government is currently running a process which brings together council tax reform and revaluation.<sup>119</sup>

## PUBLIC SERVICE TRUSTS - RESOURCING HIGH-QUALITY PUBLIC SERVICES AND LIBERATING LOCAL GOVERNMENT

Before turning to our proposals for *how* to shift responsibility for funding, there are five assumptions that have underpinned the development of a solution to the problem.

- 1. 'High needs services' are those which are national priorities set out in legislation which give people the same national entitlements regardless of where they live in England, and are demand-led rather than grant-based.** The two biggest of these are adult social care and children's social care, although homelessness-related spending (primarily temporary accommodation) and SEND-related spending also fall into the same category.

<sup>118</sup> Department for Levelling Up, Housing and Communities. Levelling Up Parks Fund: Prospectus. GOV.UK, 1 August 2022. Available at [www.gov.uk/government/publications/levelling-up-parks-fund-prospectus/levelling-up-parks-fund-prospectus](http://www.gov.uk/government/publications/levelling-up-parks-fund-prospectus/levelling-up-parks-fund-prospectus) [accessed 19/10/2024]

<sup>119</sup> Welsh Government. Council Tax reform. 14 November 2023. Available at [www.gov.wales/council-tax-reform](http://www.gov.wales/council-tax-reform) [accessed 19/10/2024]



2. **Central government should have responsibility for funding these services, as it does for the NHS for example, which is also a demand-led service.** In its submission to the 2024 Autumn Budget, the LGA argued: “End the reliance on council tax and the social care precept as a key means for funding adult social care and instead look to national taxation.”<sup>120</sup> Our proposals are designed to achieve this.
3. **These high needs social services should continue to be commissioned and delivered at a local level,** recognising that local expertise in supporting vulnerable people is essential.
4. **New funding arrangements should be designed to deliver relational, holistic and person-centred services,** including breaking down silos between different public services and agencies.
5. **New funding arrangements should be designed to encourage investment in prevention,** because better outcomes require earlier intervention.

**Based on these principles, we are proposing that the government should consider creating new Public Service Trusts (PSTs) to deliver demand-led high need services such as adult social care.**

Under our proposals, PSTs would receive funding directly from central government, not from local authorities, and fiscal risk would therefore be pooled at a national level. PSTs would be given overall strategic responsibility for oversight, commissioning and funding of demand-led high needs services across a local area.

Public Service Trusts would be strategic organisations, not delivery organisations, akin to the Integrated Care Boards (ICBs). They could provide funding for local authorities to run services as currently, but should be encouraged to develop new partnerships and alliances to improve the delivery of public services. As now, on-the-ground delivery would include public, private and third sector organisations.

The sequencing of services moving over to the responsibility of a local PST would be a matter for consultation. Initially, PSTs could take on responsibility for adult and children’s social care across a local area. Central government would provide funding for adult and children’s social care directly to the PST and be responsible for any deficits that emerge. The PST would then fund adult and children’s social care provision locally, commissioning local authorities, VCSEs or private providers as part of a long-term plan.

Financial responsibility for preventing homelessness and for the SEND system could also be given to PSTs, as these share similar characteristics to adult social care and children’s social care: they are demand-led and are mandated by central government. Paying for temporary accommodation is causing serious financial problems for some local authorities in areas with high housing costs, yet they are unable to make meaningful changes to bring these costs down.

The SEND system is slightly different as local authorities fund this from the high needs block of the Dedicated Schools Grant, which is not part of their ‘core spending power’. However, local authorities’ debt related to SEND is rising year-on-year. We therefore propose that, in the future, PSTs could be responsible for funding the local SEND system, but recognise that this requires accompanying reforms to ensure the overall system is improved for families and children, schools and local authorities. A recent report from Isos Partnership, the County Councils Network and the LGA recommended creating statutory ‘Local Inclusion Partnerships’, with their own funding, to play an “overarching strategic and commissioning role” in the system of supporting children and young people with SEND.<sup>121</sup> There are some similarities between these ideas and our own, and we think a Public Service Trust could potentially fulfil the proposed role of the Local Inclusion Partnership.

<sup>120</sup> LGA. Autumn Budget Submission 2024.

<sup>121</sup> Bryant and others. Towards an effective and financially sustainable approach to SEND in England. 2024.

Financially, a PST would be like an NHS Trust: accountable to central government for how it spends money overall, but with some flexibility to choose how to spend that money. If it does not have enough money to meet demand within a financial year, there could be a system to enable the PST to publicly request additional funding to meet demand. The National Audit Office, or another body, could be given responsibility for inspecting spending and value for money. Unlike the Children's Trusts that have been developed in recent years, PSTs would be financially responsible to central government, reducing the likelihood of financial collapse.

A PST would be governed by a strategic Board including representatives of the relevant local authorities, Combined Authority (if applicable), and other public services such as ICBs, schools and policing. Over time, as more services were integrated into the PST, more service providers could join the Board (for example, probation services could be brought into the PST). Ensuring that local authorities (and a Combined Authority if applicable) are able to influence the PST's decision-making is important for local democratic accountability, while including other public services is designed to facilitate place-based collaboration. Local authorities would also be involved in the appointment of Chairs of PSTs. As central government will be providing the funding, accountability to the centre will also be needed: for example, CQC and Ofsted could be given responsibility for joint inspections of how PSTs are commissioning services and collaborating with other local services.

## **DRIVING REFORM THROUGH INTEGRATING SERVICES**

There are widespread calls for reform in several demand-led high needs services. For example, a report commissioned by the LGA and the County Councils Network has recommended reforms to the SEND system due to the growing SEND-related debts held by local authorities.<sup>122</sup> The Sunak government published plans to reform children's social care in response to Josh MacAlister's independent review, including proposals to enable capital investment in children's homes in recognition of the fact that private providers are making excess profits.<sup>123</sup> Adult social care suffers from high workforce turnover, high vacancy rates, and long waits for assessment, with 250,000 people waiting for an assessment of care needs at the end of March 2023.<sup>124</sup> The Association of Directors of Adult Social Services has called for a workforce plan for adult social care.<sup>125</sup>

However, the crisis in local government finances makes reform extremely difficult. Many local authorities are understandably focused on finding cost savings to stay afloat financially, but this makes it almost impossible to find the necessary resources to commit to longer-term reforms in these services.

Reform of demand-led high needs services has to come through financial stability provided by central government. PSTs would help enable these much-needed reforms, by making it clear that central government is directly responsible for funding these services. The creation of PSTs would create an opportunity to focus on the medium and long-term reforms which are needed in these service areas. Without this, there is a serious risk that we continue to be stuck in a vicious cycle of crisis leading to inadequate emergency funding, leading back to crisis.

There is a risk that funding demand-led high needs services through PSTs could result in vertical funding silos, rather than horizontal collaboration. However, it is already the case that vertical silos exist within local authorities. For example, in previous Demos research, we heard examples of professional silos between housing departments and children's services departments within

<sup>122</sup> Bryant and others. Towards an effective and financially sustainable approach to SEND in England. 2024.

<sup>123</sup> Department for Education. Stable homes, built on love. 2023.

<sup>124</sup> Association of Directors of Adult Social Services. Autumn survey report 2023. November 2023. Available at [www.adass.org.uk/wp-content/uploads/2024/06/autumn-survey-report-2023-adult-social-care-budgets-waiting-times-2.pdf](http://www.adass.org.uk/wp-content/uploads/2024/06/autumn-survey-report-2023-adult-social-care-budgets-waiting-times-2.pdf) [accessed 19/10/2024]

<sup>125</sup> Association of Directors of Adult Social Services. Autumn survey report. 2023.

local authorities, which were preventing children and young people getting the support to which they were entitled.<sup>126</sup> Chris Naylor, former Chief Executive of Barking and Dagenham Council, wrote an essay for Demos describing how Barking and Dagenham changed how services were delivered. Previously, the council was “organised around professional silos” resulting in “distrust and frustration for local people for whom engagement with the Council felt like pinball – bouncing from one department to another.”<sup>127</sup> While Naylor was Chief Executive, the council implemented ‘Community Solutions’ - “designed around lives, not professions” to encourage horizontal collaboration between the council’s internal departments.<sup>128</sup> However, despite the success of Community Solutions, many local authorities still operate with vertical silos organised around professions.

A PST should be required to encourage horizontal collaboration, both within organisations and between different public services. This should include encouraging local authorities to break down internal silos, learning the lessons from examples such as Community Solutions.

In order to encourage wider partnership working across different public services, the PST could be given an overarching *Duty to Collaborate*.<sup>129</sup> This means that the PST would be required to collaborate and partner with other local public services. This must also feed through into how the PST funds services. For example, central government provides funding through the Supporting Families (Troubled Families) programme which has been successful in improving multi-agency partnership working to support families, so that “services are organised around people’s needs rather than around agency boundaries”.<sup>130</sup>

## **MAKING PLACE-BASED BUDGETING A REALITY AND FOCUSING ON PREVENTION**

PSTs should have a role in encouraging place-based budget pooling. There is significant interest currently in exploring ways of implementing ‘Total Place 2.0’, drawing on the lessons of Total Place pilots in the late 2000s.<sup>131</sup> As discussed earlier in this report, there is a need to pool financial risk for demand-led high needs services, which is currently borne by each individual local authority.

PSTs could build on existing initiatives designed to pool budgets. For example, the government is running two ‘pathfinder’ pilots of Regional Care Cooperatives in children’s social care.<sup>132</sup> These are designed to improve commissioning by pooling children’s social care budgets regionally, as well as better collaboration with other public services such as health and youth justice.<sup>133</sup> The existing Better Care Fund enables budget pooling between the NHS and Local Authorities for health care and adult social care.<sup>134</sup>

Following the suggestion made by John Denham and Jessica Studdert, we suggest that central government should create a general ‘power of budget pooling’ which enables the PST and

126 Phillips, Bush and Walcott. Wall to Wall Support. Demos. 2023.

127 Naylor, C. Only We Can Save the State: Lessons for national government from public service reform in Barking and Dagenham. Demos, 11 June 2024. Available at <https://demos.co.uk/research/only-we-can-save-the-state-lessons-for-national-government-from-public-service-reform-in-barking-and-dagenham> [accessed 19/10/2024]

128 Naylor. Only We Can Save the State. Demos. 2024.

129 Denham, J. and Studdert, J. Place-Based Public Service Budgets: Making Public Money Work Better for Communities. New Local, 31 January 2024. Available at [www.newlocal.org.uk/publications/research-reports/place-based-budgets](http://www.newlocal.org.uk/publications/research-reports/place-based-budgets) [accessed 19/10/2024]

130 MHCLG. National evaluation of the Troubled Families Programme 2015-2020: Findings. GOV.UK, March 2019. Available at [https://assets.publishing.service.gov.uk/media/5c90ab20e5274a47046f7b55/National\\_evaluation\\_of\\_the\\_Troubled\\_Families\\_Programme\\_2015\\_to\\_2020\\_evaluation\\_overview\\_policy\\_report.pdf](https://assets.publishing.service.gov.uk/media/5c90ab20e5274a47046f7b55/National_evaluation_of_the_Troubled_Families_Programme_2015_to_2020_evaluation_overview_policy_report.pdf) [accessed 19/10/2024]

131 Denham and Studdert. Place-Based Public Service Budgets. 2024

132 Samuel, M. Regional care commissioning test-bed sites selected. Community Care, 6 September 2024. Available at [www.communitycare.co.uk/2024/09/06/council-groups-chosen-to-test-regional-commissioning-of-care-placements](http://www.communitycare.co.uk/2024/09/06/council-groups-chosen-to-test-regional-commissioning-of-care-placements) [accessed 19/10/2024]

133 Department for Education. Stable homes, built on love. 2023.

134 DHSC and DLUHC. 2023 to 2025 Better Care Fund policy framework. GOV.UK, 12 April 2024. Available at [www.gov.uk/government/publications/better-care-fund-policy-framework-2023-to-2025/2023-to-2025-better-care-fund-policy-framework](http://www.gov.uk/government/publications/better-care-fund-policy-framework-2023-to-2025/2023-to-2025-better-care-fund-policy-framework) [accessed 19/10/2024]

other agencies to collaborate financially to achieve shared objectives.<sup>135</sup>

The financial benefits of PSTs through greater collaboration and integration could be significant. An evaluation of 'community budgets' (another term for Total Place) in 2013 by EY found that £28 billion (August 2024 prices) in net benefits could be created through rolling out this work across the country.<sup>136</sup> Over time, this could generate significant cashable savings to government through improving outcomes and reducing demand for services.

Under our proposals, PSTs would be responsible for providing funding for demand-led high needs services, and would not be responsible for broader preventative policy ('foundational policy') which, at a place-based level, would be the responsibility of local authorities. However, we suggest requiring PSTs to invest in prevention and early intervention in the service areas for which they are responsible (this could look like, for example, ensuring that funding goes to 'early help' or 'family help' services for families and children facing challenges, which local authorities are currently finding it difficult to fund due to spending pressures related to children in care).

This could build on the example of central government providing funding directly to local authorities via the Supporting Families (Troubled Families) programme to encourage relational, holistic support for families and children.<sup>137</sup> A quantitative evaluation found this delivered improved outcomes across a range of areas, and delivered fiscal savings of £1.51 for every £1 spent.<sup>138</sup> The success of this programme stands in contrast to children's social care overall since 2010: as described above, local authorities' spending has become increasingly concentrated in the 'late intervention' part of the system.

PSTs could also learn lessons from innovations in outcomes-based commissioning and Social Outcomes Contracts. This enables commissioners to pay for outcomes achieved, rather than activities delivered. For example, Better Society Capital supports the Positive Families Partnership, jointly commissioned by five London Borough Councils and supported by the National Lottery Community Fund. The specified outcome is preventing children entering residential care.<sup>139</sup> A PST could have the necessary scale and commissioning expertise to make this kind of innovative funding mechanism for prevention more widespread.

Central government could target PSTs spending 10% of their total budget on programmes, schemes or initiatives which demonstrably encourage prevention or early intervention. This could be effectively ringfenced via the new Treasury spending category which Demos has proposed, Preventative Departmental Expenditure Limits (PDEL).<sup>140</sup>

## CREATING PUBLIC SERVICE TRUSTS

We propose that the government should consult on creating three pilot Public Service Trusts in 2025, in order to test the model and learn lessons about how to ensure they work effectively, with a view to creating further PSTs from 2026 onwards. The pilot PSTs could be part of the Spending Review, scheduled to be finalised in spring 2025.

Central government, local authorities, ICBs and providers could consider the following steps in creating the pilot Public Service Trusts:

135 Denham and Studdert. Place-Based Public Service Budgets. 2024.

136 Ernst & Young. Whole Place Community Budgets: A Review of the Potential for Aggregation. LGA, January 2013. Available at [www.local.gov.uk/sites/default/files/documents/whole-place-community-bud-99a.pdf](http://www.local.gov.uk/sites/default/files/documents/whole-place-community-bud-99a.pdf) [accessed 19/10/2024]

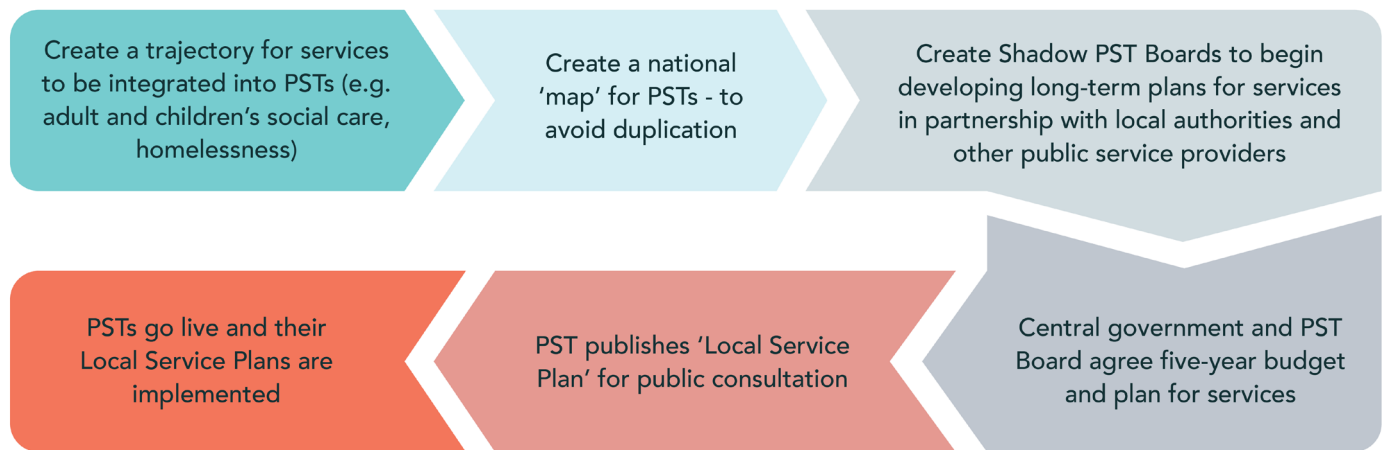
137 Foster, D. Supporting Families Programme. House of Commons Library, 31 March 2023. Available at <https://commonslibrary.parliament.uk/research-briefings/cbp-7585> [accessed 19/10/2024]

138 MHCLG. National evaluation of the Troubled Families Programme. 2019.

139 Better Society Capital. Positive Families Partnership. (no date). Available at <https://bettersocietycapital.com/impact-report-2020/people/families-friends-and-relationships/positive-families-partnership> [accessed 19/10/2024]

140 O'Brien, A., Curtis, P. and Charlesworth, A. Revenue, capital, prevention: A new public spending framework for the future. Demos, 2 October 2023. Available at <https://demos.co.uk/research/revenue-capital-prevention-a-new-public-spending-framework-for-the-future> [accessed 19/10/2024]

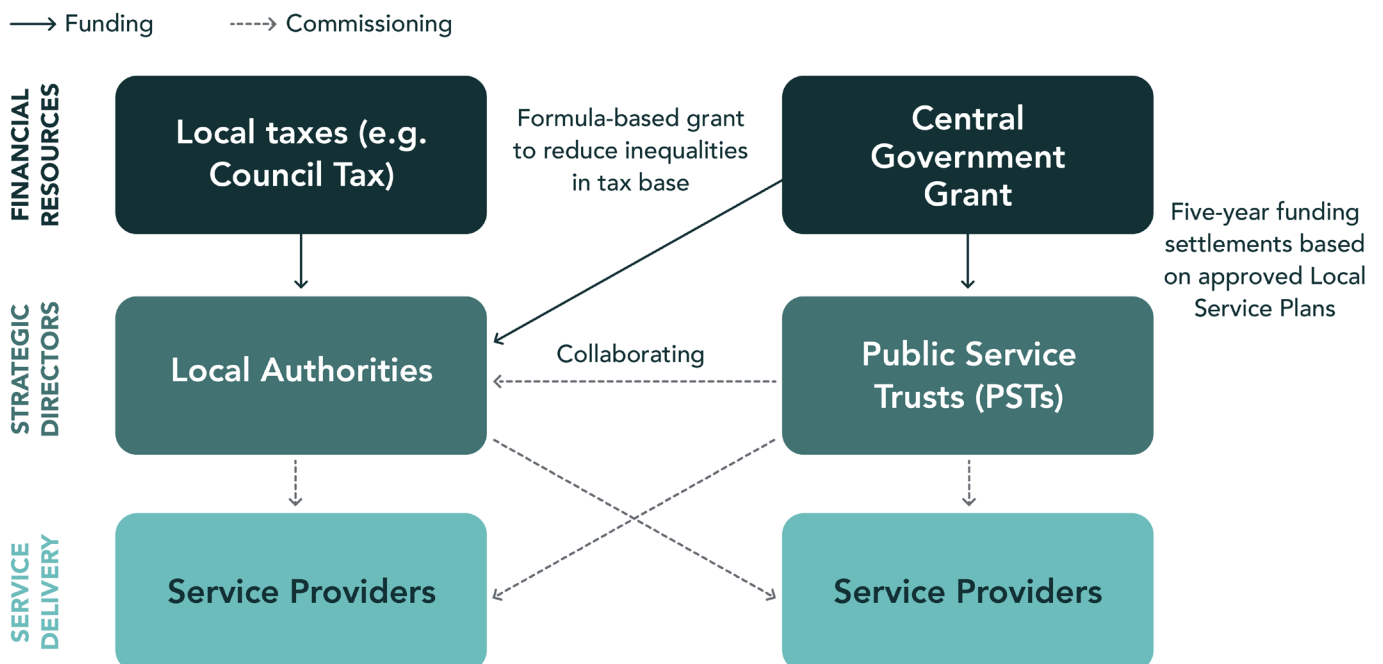
**FIGURE 1**  
STEPS TOWARDS CREATING PUBLIC SERVICE TRUSTS



Over time, PSTs would take on more commissioning responsibilities to bring public services together in the style of Total Place. PST services should not only come from local authorities but could provide a meaningful opportunity for devolution from central government too. For example, probation services are currently directly delivered by central government and therefore separated from other local public services. The PST could take on responsibility for commissioning probation services in a similar way to other services which are currently the responsibility of local authorities. PSTs would also provide a mirror to ICBs which would enable, over time, the integration of health with other key public services (such as social care) which is currently prevented due to the challenge of marrying different funding streams (central and local) across health and care services. Under a united national funding settlement, Total Place-style funding would be possible.

In this liberated vision for local government with PSTs in place, funding for local authorities would be made sustainable.

**FIGURE 2**  
THE NEW FUNDING LANDSCAPE FOR LOCAL GOVERNMENT



Local authorities would receive direct funding from two main sources. (For simplicity, here we ignore ringfenced grants given to local authorities, for example ringfenced funding for schools, which is not considered part of a local authority's core spending power.)

- 1. Council tax (or appropriate local tax):** local authorities should be given control over council tax rates, in order to help restore their 'local democracy' purpose. This means reducing central government control over council tax rates, allowing local authorities to reduce or increase council tax without restrictions. To reassure central government, it could retain a high limit on the annual rate of increase or decrease (for example, a maximum 20% reduction or increase). However, within reason, local authorities should be given complete discretion over levels of council tax. Central government should place their confidence in the hands of local voters to hold elected councils to account for tax rates.
- 2. A formula-based equalisation grant.** This would primarily be based on socioeconomic deprivation. The purpose of this grant is to provide equalisation between different areas within England, recognising that some areas are able to raise more money from council tax than others. This should be based on the latest available data and updated every five years.

Local authorities would also be commissioned by Public Service Trusts to deliver services. However, this funding would be ringfenced for those specific services, and would not be part of the local authority's core funding. Both local authorities and PSTs would continue to be able to use their funding to commission other organisations to deliver services, as happens today.

In 2024-25, Council Tax was expected to raise £30 billion (excluding the adult social care precept).<sup>141</sup> This would provide a significant pool of resources for councils to invest in their local areas and fulfil their 'local democracy' and 'place leadership' purposes.

We believe that council tax is the most effective way to fund the foundational and social infrastructure that would be the primary responsibility of local authorities, for a number of reasons. First, citizens and households directly benefit from the place-shaping and local democratic elements of councils' activities, while businesses are less likely to see the need for higher revenues to fund these. Therefore council tax is more likely to generate the scale and consistency of revenues required to fulfil these functions. Second, these types of place-shaping activities more directly relate to household formation, and therefore future demand is tied closely to growth in the number of households. Relying on council tax means that more revenue will be generated as the population increases, rather than relying on business rates which are more volatile and dependent on overall economic conditions within a place. Finally, we believe that the public already expect that their council tax should be going on these types of place-shaping activities: therefore, strengthening the link between local authority place-shaping activities and council tax would be in line with public expectations.

This leaves £34 billion remaining funding which is currently considered 'core spending power' for local authorities, which under our proposals can be used to fund Public Service Trusts. This figure includes business rates, the adult social care precept and various central government grants given to local authorities. This would be sufficient, for example, to fund current expenditure on adult social care (an estimated £25 billion in 2024-25).<sup>142</sup> However, it would not be sufficient to fund all services that meet our classification of demand-led high need services, such as children's social care, homelessness and SEND. Based on the LGA's projections of need across these service areas, assuming there is no longer need for ringfenced funds such as the Better Care Fund and giving national government access to funding from the adult social care

141 Department for Levelling Up, Housing and Communities. Final local government finance settlement: England, 2024 to 2025. GOV.UK, 30 April 2024. Available at [www.gov.uk/government/collections/final-local-government-finance-settlement-england-2024-to-2025](http://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2024-to-2025) [accessed 19/10/2024]

142 Department for Levelling Up, Housing and Communities. Local authority revenue expenditure and financing: 2024-25 budget, England. GOV.UK, 3 October 2024. Available at [www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2024-to-2025-budget/local-authority-revenue-expenditure-and-financing-2024-25-budget-england](http://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2024-to-2025-budget/local-authority-revenue-expenditure-and-financing-2024-25-budget-england) [accessed 19/10/2024]

precept, this leaves a £14.2 billion funding shortfall for the services that we believe would be likely to need administration by PSTs.<sup>143</sup> This shortfall is large, but it is important to compare this to other nationally funded services. For example, the shortfall is equivalent to only 8% of the total budget for the NHS in England.

In the proposal above, business rates (or their future replacement) would be controlled nationally and used to fund public services which are national priorities. Since 2013-14, there has been a business rates retention scheme in place, which has allowed local authorities to retain a proportion of business rates raised locally, designed to provide an 'incentive' to local authorities to encourage local economic growth. If the 'local economic champion' purpose is primarily fulfilled by Combined Authorities, it is not clear the business rates retention scheme for local authorities is needed. However, if the government wished to retain it, or move business rates retention to Combined Authorities, this would require additional funding for PSTs from a different source. This also depends on the design of the replacement for business rates which was promised in the Labour Party's manifesto.

Ultimately, there is no way that this investment can be avoided by central government, in the same way that the NHS budget has to have the resources required to meet its statutory obligations. The creation of Local Service Plans would enable HM Treasury to retain control over the resources given for local service delivery and five year plans would provide financial stability for PSTs as well as giving HM Treasury assurance over the medium-term cost of services.

Central government has the ability to absorb this shortfall in a way that is simply not possible for local authorities. For example, according to the Office for Budget Responsibility (OBR), total managed expenditure (revenue, capital and social security expenditure) is due to increase by £204 billion or 17.6% between 2022-23 and 2028-29.<sup>144</sup> The funding shortfall for services is equivalent to just 7% of this proposed increase in total managed expenditure. By contrast, local government expenditure is due to increase in total by £17.8 billion over the same period. The shortfall is therefore equivalent to 80% of the total increase in local government expenditure over the forecast period. This ignores the fact that local authorities are still recovering from real-terms cuts in expenditure and are responsible for much more than these demand-led high need services.

These figures are also based on a static picture of demand for these services. The funding shortfall is likely to rise given demographic changes and more complex individual needs, and local authorities are struggling to provide services as they currently exist, let alone taking into account future demand.

This funding gap needs to be closed as quickly as possible and central government is best placed to generate new revenue sources for these services. Council tax revenues, for example, would need to increase by 47% this year to meet this funding shortfall. This is neither financially possible nor politically feasible. By contrast, a re-introduction of the Health and Social Care Levy, for example, as proposed by the last government, could fill 90% of the funding shortfall through one fiscal measure. Imposing NIC contributions on pension contributions or capping income tax relief for pension contributions at the basic rate could (individually or in combination) eliminate this funding gap. With a clearer sense of roles and responsibilities between central and local government, we could consider launching a Royal Commission on Public Service Funding to begin a cross-party conversation on how to fund nationally directed public services, broadening the social care commission proposed by the Secretary of State for Health and Social Care.

143 LGA. Council funding requirement and funding gap. 2020. Available at [www.local.gov.uk/sites/default/files/documents/Technical%20Document%202020.pdf](http://www.local.gov.uk/sites/default/files/documents/Technical%20Document%202020.pdf) [accessed 19/10/2024]

144 Office for Budget Responsibility. March 2024 Economic and fiscal outlook – detailed forecast tables: expenditure. 6 March 2024. Available at <https://obr.uk/efo/economic-and-fiscal-outlook-march-2024> [accessed 19/10/2024]

It would also give a truer reflection of financial responsibility. At present, central government is able to hide behind the fiscal fiction that local authorities are responsible for finding resources to fund demand-led high need services. Yet everyone knows that local authorities lack either the financial base or tools to be able to do so. Central government would be clearly financially responsible for demand-led high needs services, as it is in reality and as the public expects. Central government could choose not to address the funding shortfall, but then it would be clear to the public that this was a political decision made by central government. Hiding behind local authorities (and blaming them for the lack of funding for local services) would no longer be possible.



# CONCLUSION

## **A CLEAR PURPOSE, A CREDIBLE FINANCIAL SYSTEM**

We can only go beyond the sticking plaster if we have a clear sense of what a good system looks like.

Through our consultation with local authorities and other experts, it is clear that local government's strengths reside in its ability to lead local places and champion local democratic accountability. Local authorities have expertise and insight into how to deliver public services effectively, but the unrealistic financial demands being placed upon them mean that they risk fulfilling none of their purposes well.

Liberated local government would have a clearer focus. Place leadership, working with local partners to invest in the long-term preventative interventions that tackle the social determinants of community strength and population health, and to create strong foundations for local communities. Local democracy, responding to the views of local residents and bringing these insights to bear in making long-term investments as well as engaging with the providers of public services whether those are based locally or in central government.

Local government would once again have the financial freedom to make investments that can transform their local areas and voters would have meaningful choices to make at the ballot box about levels of local taxation as well as how it is spent.

Public Service Trusts would provide fiscal stability for critical public services and provide a platform to integrate local services, breaking down silos and giving flexibility to professionals to design services in a way that meet the needs of service users. Risk would be pooled at a national level, with clearer lines of financial accountability.

An equitable distribution of financial responsibilities would mean no more lurching from financial crisis to financial crisis. Finally, we would have a system of financing local government built to last, based on a clear-eyed assessment of the financial capabilities of local authorities.

Any change will be controversial, but we hope that this report starts a frank conversation about the purpose of local government, and what can be done to put local authorities' finances on a sustainable footing. The ideas contained here are not the end point, but the beginning of reforms that are required to fix our public services and restore stability to local government finances.

**That being said, we believe that there is a clear point of consensus: business as usual is simply not an option.**

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