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Population health - paying the bill for austerity

We have a population that is getting fatter, older and sicker. The model of care outlined in the health and social care white paper might be brilliant in conception but its execution and funding remain unclear.

The reforms will require the NHS and local government working together to address public health inequalities in a more holistic way than ever before. But many local authorities face a huge funding crisis.

Last June, Rob Whiteman, the CEO of CIPFA, advised us to sit up and take notice when councils warn of issuing Section 114 notices. By December Croydon had issued not one but two, stopping all but statutory expenditure and initiating immediate cost cutting.

Since then the Public Accounts Committee has said that more councils will likely follow and now the National Audit Office (NAO) has published a report raising alarm about the significant funding gaps and concerning financial outlook for local authorities, urging the government to act.

Balancing act

Unlike the NHS and other public sector organisations, local authorities have a legal duty, under the Local Government Finance Act 1992, to issue balanced budgets. This presents some significant partnership challenges. Central government can borrow to finance day-to-day spending but local authorities cannot. They must ensure that their expenditure is matched by their resources. If it isn't, the chief finance officer, or Section 151 officer, must by law issue a Section 114 notice, preventing any expenditure other than on statutory services or to fulfil existing contracts.

It is a difficult balancing act, and not all achieve it. Croydon isn't the only council to have failed to do so – Northamptonshire is perhaps the highest profile example, and many more are on the brink.



Rob Whiteman rightly said in his 2020 article: “The last thing our communities need is a freeze on spending during a public health crisis. [This] will only reduce councils’ ability to deal with the crisis at hand, and deepen pre-existing vulnerabilities and inequalities in communities.”

Casualties

More than a decade of austerity has left many local authorities in a financial bind. The way local government is funded has also changed, moving from a central government grant allocated on need to more uncertain funding tied to local growth through business rates retention and a new homes bonus, with an emphasis also on income generation increasingly through commercial activity – the legacy of the Localism Act 2011.

Despite these challenges, most councils have coped – but not without impact. Just last week we wrote about the 11th anniversary of the Marmot report, reflecting on how health inequalities are increasing and population health is declining. These factors have been linked to austerity, which has led to cuts in key council services that disproportionately affect the most vulnerable and deprived.

Local authorities have managed to minimise this impact through good, inventive financial management and by digging into reserves. But these have now been drained to their statutory minimum so they now barely offer protection against emergencies.

Dominos

Local authorities have played a significant role in the management of COVID-19, working to protect local communities and support businesses while continuing to deliver existing services. Their effort however has come at a significant cost: £9.7bn, not including tax losses.

The government has provided emergency grants to cover some of their increased costs and losses, totalling some £7.9bn, but it still leaves almost all authorities facing significant gaps and with increasingly challenging outlooks. Councils are forecasting a legacy of £6.9bn in additional costs this financial year alongside a forecast of £2.8bn in income losses, with fewer opportunities than ever before to reduce costs further or raise income.

What’s left of reserves will be used to cover the damage. According to the NAO, 46% of single tier and county councils have either used their reserves, or plan to, in response to COVID-19 pressures in 2020-21. But then what? Ask Croydon.

The government has promised a review of local government finance. The Fair Funding Review was due last November but has been delayed with no date for when it will be picked back up. Until it is, councils are left with just one option: to continue to cut services.

According to the NAO report: “Overall, 94% of single tier and county councils and 81% of district councils who responded to the NAO’s survey expected to reduce service budgets in 2021-2022.” And what will be cut? Examples provided by local authorities “included reviews of adult social care and special educational needs packages.”



Standing side by side

One of the triumphs of the pandemic response has been the close collaboration between local authorities, the NHS and other public sector, voluntary and private organisations. Crucial to the recovery phase will be maintaining and building on these partnerships.

Integrated care systems are pivotal to this work. Local government has a key role in helping ICSs to drive meaningful improvements to health and wellbeing. If more councils issue Section 114 Notices, as seems likely, they will be unable to enter into any new agreements that incur a cost. With close partnership work so crucial to ICSs it is hard to see how the inability of councils to enter into joint funding arrangements won't have an impact on the aspirations of government health reform.

Perhaps it is time to reimagine public sector finance, addressing financial sustainability as well as bringing more unilaterality to funding models, commissioning frameworks and accountability structures.

Illuminations

- There's a crisis in local government finance that is not just a problem for local authorities – it has a significant impact on health inequalities.
- For more than a decade we have been storing up problems in social care and public health. These problems could yet undermine the success of the proposed health and social care reforms.
- Meeting these challenges will require nothing short of a bold reimagining of public sector finance.

If you have any questions or comments about this briefing, please call us on 07732 681120 or email advice@good-governance.org.uk