

Rt Hon Angela Rayner MP

Deputy Prime Minister and Secretary of
State for Housing, Communities & Local
Government
2 Marsham Street
London SW1P 4DF

Please contact:

Paul Johnson
Chief Executive
Solihull MBC
Email: pjohnson@solihull.gov.uk

Date: 7th August 2024

Dear Deputy Prime Minister,

Local Government Finance in the West Midlands

At the outset of your new term in government, we are writing to highlight the key financial challenges faced by the seven metropolitan councils in the West Midlands.

In the West Midlands, we pride ourselves on being self-reliant and making the most of opportunities to improve the lives of our residents, but there are a number of factors which are making this increasingly challenging and where we are seeking your support.

The published medium-term financial strategies for the seven authorities, show a collective forecast funding gap of £161 million for 2025/26 (of which £67 million is for Birmingham). If we include further pressures from latest forecasts, this figure will be well over £200 million. There is a real risk of the whole region declaring itself as financially unsustainable.

This letter sets out how the new government can help us to avoid this. We make a number of asks, which are all backed by evidence, and which we hope can set the agenda for an early dialogue with the new government on how you can support our region to be one of the key drivers of inclusive growth, for the benefit of the rest of the UK.

Service pressures

The pressures facing local government have been well-documented by the Local Government Association, the Institute for Fiscal Studies and others. Local authorities have had a 22% cut in core spending power since 2010/11 and face a funding gap of £2.3bn next year, rising to £3.9bn by 2026/27. We have compared our financial strategies, and all seven metropolitan authorities in the West Midlands have the same list of funding pressures. This is: the rising cost and demand pressures in adult social care, children's

services, homelessness/temporary accommodation and a significant increase in demand for SEND services, including home-to-school transport. ¹

Since 2010/11, increases in spending on social care have been funded from reductions in essential services elsewhere, with spending on housing down by a third and spending on planning, highways and transport, and culture and leisure is down by more than 40%.² For each of the seven local authorities, spending on social care now accounts for 70% of our budgets, almost double the amount we were spending in 2010.

A lack of funding to be able to invest in preventative services and early help for children's and adults is driving up demand and spending, creating even more financial challenges.

There are some short-term actions government can take to address specific funding concerns.

We are asking for:

- Early confirmation that the Flexible Use of Capital Receipts Policy has been extended to 31st March 2030.
- Reinstatement of the Services Grant to 2023/24 levels, to support immediate financial pressures.
- Confirmation of the continuation of the social care grant as part of a sustainable solution to funding adults' and children's social care.
- Measures to be put in place to prevent cost shunting of NHS pressures to local government, together with a more joined up approach to tackling health and social care pressures.
- Increased flexibility to allow local authorities to use funding as required to best serve local people (e.g. relaxing constraints on the High Needs Block of the Dedicated Schools Grant).
- An immediate increase to housing benefit subsidy for temporary accommodation (currently fixed at 90% of local authority rates as at January 2011).
- Confirmation of support for our most vulnerable residents currently supported through one-off funds that are due to end imminently, e.g. Household Support Fund.
- Inflationary increases in specific grants (including Better Care Fund, homelessness funding and the Public Health grant), to avoid the gradual erosion in value experienced in recent years.

¹ Local Government Association (June 2024), *Local Government White Paper*. Available from: <https://www.local.gov.uk/publications/local-government-white-paper>

² K Ogden and D Phillips, Institute for Fiscal Studies (June 2024), *How have English councils' funding and spending changed? 2010 to 2024*. Available from: <https://ifs.org.uk/publications/how-have-english-councils-funding-and-spending-changed-2010-2024>

Local government needs more funding to stabilise the sector and protect the vital services our residents need and value, but also needs fundamental system changes to underpin a new relationship between central and local government.

System changes

The consensus across the sector is that the current model for distributing funding to local government is opaque, overly complex, outdated and in urgent need of reform. The existing funding model, linked to business rates retention, dates back to 2013/14, with much of the formulae and data used to assess relative needs and relative resources even older than that. Since then, the funding system has placed increasing emphasis on financial incentives (such as the new homes bonus), rather than on redistribution according to relative need.

The relationship between funding and patterns of need has broken down, with funding cuts disproportionately affecting areas with higher levels of assessed spending need. Increases in funding, although desperately needed, will not deliver the results required without changes to how that funding is distributed. A review of relative needs and resources was first promised in 2016 but has been repeatedly delayed.

Funding within the High Needs Block of the Dedicated Schools Grant (DSG) is also in a dire state, with many local authorities reporting frightening deficits which will never be recovered. Experiences from authorities that are part of the Safety Valve or Delivering Better Value programmes show that the expected savings from these programmes are unrealistic, with many targets being missed. The removal of the statutory override for the method of accounting for DSG deficits in March 2026 will create a further funding crisis across local government.

The crucial first step to restoring financial stability across the sector is an immediate commitment to multi-year settlements to ensure councils can plan effectively across the medium term. In addition to supporting longer-term decision making and service planning, this would reduce the amount of money that local authorities need to set aside in reserves to manage future fluctuations in funding.

We are asking for:

- A commitment to longer term funding settlements, to move towards long-term certainty.
- Sufficient and sustainable funding for local government, which recognises demographic change and demand increases, supported by a new fit-for-purpose funding model based on up-to-date data.
- A reduction in the fragmentation of funding: short term funding and competitive bidding rounds do not support strategic planning.
- Bringing budgets together based on place: introducing multi-department place-based budgets, built around the needs of local communities.

- A renewed focus on prevention, backed by government investment, to address existing and future demand.
- A commitment to fix the broken market for children’s social care placements.
- A complete overhaul of the funding arrangements for the Dedicated Schools Grant, including a review of the safety valve and delivering better value programmes and the arrangements for underwriting significant accumulated DSG deficits.
- Increased freedoms, such as removing government-set fees and charges and council tax referendum thresholds, so local councillors can decide what is best for their communities.
- Safeguards to ensure that the social care element of the Better Care Fund is protected as a funding source for local government.

New burdens

We know the people delivering our vital services are our biggest asset, whether they are directly employed by councils or work for other organisations on our behalf. We therefore welcome the steps taken through the National Living Wage to address low pay. However, these increases have a significant impact on the cost of commissioned services, particularly in social care, and these consequences are not currently recognised through the local government funding system.

There are also other factors outside councils’ control which can affect our costs. Increasingly, we have seen new expectations and statutory responsibilities for local authorities - recent examples include reporting requirements to Oflog, updates to the Statutory Youth Offer, increased housing regulation and new requirements around the disposal of items containing persistent organic pollutants. The intensification in the inspection regime, for example in adult social care and Special Educational Needs and Disabilities (SEND) also represents an increased – and unfunded – administrative burden for local authorities.

We are asking for:

- A measured and proportionate approach to regulation, oversight and inspection, as part of a mature relationship between central and local government.
- Adequate funding to enable councils to manage the cost of new burdens.

A new relationship

We want to deliver high quality local services and we want to work with government to enable us to do so. However, it is clear that councils cannot meet all the demands placed upon them and the current position is unsustainable. We are seeking a constructive relationship with central government where we can work together, and this will need to

start with an open and honest conversation about our respective priorities, expectations and challenges.

We are asking for:

- Early engagement with ministers about what is expected from local government within the resources available to us, as a first step to developing effective working relationships that can deliver for our communities.

As a group of West Midlands local authorities, we have a unique place leadership and convening role which is critical to driving economic growth, but which will be severely compromised if we have to disproportionately focus our dwindling resources on core statutory services.

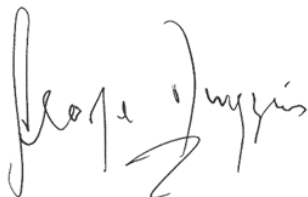
We are a trailblazing area, and we fully support more devolution to local areas. We are encouraged by the freedoms and flexibilities that have been given to us as the seven members of the West Midlands Combined Authority and we have high ambitions. But to make the most of these, we need financially sustainable metropolitan councils. We want to work together to implement constructive solutions that will ensure that this is achieved, for the benefit of our local areas.

This needs to happen quickly. We are requesting that you meet with us, either in London or the West Midlands and we look forward to receiving your early response.

Yours sincerely,



Councillor John Cotton
Leader of Birmingham City Council



Councillor George Duggins
Leader of Coventry City Council



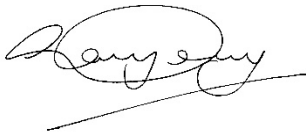
Councillor Patrick Harley
Leader of Dudley Council



Councillor Kerrie Carmichael
Leader of Sandwell Council



Councillor Ian Courts
Leader of Solihull Council



Councillor Garry Perry
Leader of Walsall Council



Councillor Stephen Simkins
Leader of the City of Wolverhampton Council