

# Preventing a new round of local government austerity

***Martin Wicks assesses results of the debt cancellation campaign so far and how we can advance it as the financial crisis of local authorities spirals out of control***

**T**he financial crisis of local government, precipitated by the pandemic and the lock-down, is rapidly coming to a head. The gap between government emergency funds given to councils and the combination of extra costs and lost revenue, is estimated by the LGA to be around £6 billion. This would be required just to get them through this financial year. The LGA has said that this figure may have to be revisited because the financial information provided by councils was based on “a return to normal” in July. There is no chance of this. For a host of reasons there is no way that revenue will quickly return to pre-pandemic levels, not least of which is a big increase in unemployment.

Faced with the prospect of councils issuing section 114 notices, CIPFA has just issued a temporary guidance on them, to prevent “disruptive spending freezes”. Issuing of the notice requires councils to freeze all expenditure apart from that associated with legal duties. CIPFA's guidance says

“Temporary change to the s114 notice process creates space to explore other options or financial support that may be available to local authorities, while allowing finance directors to meet their statutory responsibilities.”

Essentially it means that instead of issuing a notice publicly they should quickly get involved in discussion with the government aimed at preventing a failure to set a balanced budget (of which they have a legal obligation).

“I think we all agree that the option of a s114 process in the midst of a crisis has to be avoided as much as possible because councils need to be focused on shielding the vulnerable and all the other important work they are doing, not on freezing expenditure whilst a report is prepared to full council. It could be a damaging diversion.”

*CIPFA Chief Executive*

He said that while CIPFA was “hopeful” that government would come forward with a package of support to address the impact of Covid-19 on council budgets, including the lost income, this was unlikely to be before “late summer or early autumn”.

## **Suspend balanced budgets?**

The gulf between government funding and the money they need to get by has precipitated a debate in the LGA. The Local Government Chronicle reported on a discussion at the LGA executive committee at which both Labour and Tory councillors raised the possibility of suspending the legal duty to set a balanced budget each year. One suggestion was changing to a three year cycle over which budgets must be balanced. However, Richard Watts, Leader of Islington council said that the impact of the current crisis would not be restricted to three years.

Some council officers responded in the negative, calling the idea “nuts”, or tantamount to “letting the government off the hook” over the need to provide councils with sufficient funding. *There should certainly be no retreat* over the demand that the government cover both the extra costs and the lost revenue which has resulted from their lock-down decision. However, it still leaves unresolved the issue of funding to the level of actual needs. As we

have said before, even if the government covers extra costs of lost revenue for this year, that will be insufficient to cover the on-going impact. That's why the cancellation of the debt remains the simplest means of stabilising council finances by providing £4.5 billion a year. In addition there is a need to return to a funding system based on annual assessment of social needs in each locality (these assessments were ended by the coalition in 2013).

The only argument we have heard against debt cancellation is that it will “reward” Tory authorities that have made reckless commercial investments. In fact the government itself is closing down this avenue on the basis that councils should concentrate on providing services. Interestingly, we have recently seen a revolt in the Tory councillors group in Spelthorne (the worst case of reckless commercial investment) where the Leader of the Tory group has been thrown out, precipitating a departure by him and his supporters from the Tory group, setting up their own under the somewhat ironic named of the United Spelthorne Group!

Fundamentally, the idea that this government would give Labour groups more money whilst penalising Tory councils for their commercial adventures, is unrealistic. Moreover, to oppose debt cancellation on the grounds that it would “reward” those Tory councils is tantamount to accepting (as our SW Regional rep Kate Ewert has pointed out) that the punters in those areas should be penalised because they have a Tory council which has gone down a commercial road. Labour voters should suffer to penalise their Tory council?

## **How have we done?**

What are the results of our campaign so far? It has definitely struck a chord. We have fifteen Labour Council leaders (there are 102 Labour councils, with a majority or in coalition) and three opposition Labour Group leaders supporting our statement. In addition Leeds Council's executive passed a resolution agreeing to call on the government to cancel local authority debt<sup>1</sup>. The 4 Wirral MPs have written to the government. 28 MPs, on a cross party basis, signed MP Claudia Webbe's letter to Chancellor Rishi Sunak calling on him to cancel the debt. We have [signatories](#) to the statement from 40 towns/cities/areas.

Despite our best efforts we have been unable to get the mainstream media to take up the issue thus far. If anybody has any contacts with journalists in the MSM perhaps you could contact us to discuss reaching them directly.

**We want both the Labour Party nationally and the Labour Group in the Local Government Association to demand and campaign for debt cancellation.** We have written both to Steve Reed, Shadow Minister for Local Government and Nick Forbes, Leader of the LGA Labour Group, though with no response so far. We will endeavour to get sympathetic MPs to speak to them. Obviously the view of the LGA Labour Group will carry weight with the leadership. We consider below what pressure can be brought to bear.

## **A national campaign for sufficient funding, or deep cuts**

What is becoming crystal clear is that Labour has a choice of either trying to build a national campaign to pressure the government to sufficiently fund councils, or else if they are to set balanced budgets (without sufficient funding) they would have to implement cuts which may well be worse than Osborne's. After ten years of austerity and the unprecedented impact of the pandemic this would be socially disastrous.

As one councillor responsible for finance in a large authority recently pointed out, without sufficient additional funding, to set a balanced budget, his council would have to push through compulsory redundancies and charge for services it doesn't currently charge for. This will be replicated elsewhere. Every day news emerges of the gap between

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<sup>1</sup> Their deputy leader has just signed.

government funding and needs. The latest example is Tory Wiltshire County Council which faces a £50 million funding gap for this financial year alone. The gap for Croydon is £62 million.

**In this situation the three proposals in our statement are becoming more urgent as councils suffer the consequences of the “tsunami of increased expenditure and falling income”.**

- The government must cover councils' extra costs and lost revenue
- Cancel the debt held by the PWLB, and
- Open urgent discussion on a funding system based on annual assessments of actual social needs in each locality.

### **So what can be done to further this agenda?**

- Labour Council groups should write to the LGA Labour Group calling on them to demand debt cancellation and press the LGA to do likewise;
- Individuals and groups should email Steve Reed, Angela Rayner and Keir Starmer calling on Labour to press this demand;
- Councils should follow the example of Leeds and pass resolutions calling for debt cancellation and write to the government accordingly;
- Individual Labour councillors who have signed our statement should endeavour to get their Labour group to support the demand (some that we have heard from are organising to that end);
- Even if Labour Parties as such are not functioning (via zoom) some Executive Committees are. Some have already added their support, will yours?
- We are trying to reach as many Labour councillors as possible. If you can find the time to email some for us we can send an email text which you can simply forward to them.

### **Trades Unions**

If a national campaign to stop cuts by local government is to develop then obviously the trades unions, especially, though not exclusively, the local government unions, have a key role to play. It is their members, 'key workers', praised so much of late, whose jobs are at risk, together with the services they provide. We are producing a PDF leaflet directed at winning the support of trades unions for the demand of debt cancellation. Currently we have the support of one UNITE Assistant General Secretary and the General Secretary and President of BFAWU.

Obviously local union branches are key in mobilising unions to demand the funding necessary to prevent the pandemic producing cuts which will decimate jobs and services. If you are a trade union member or officer at the branch level or at another level, and would like to help, please email us. We will send out the PDF shortly. Please circulate widely.

### **HRA debt**

As a council housing campaign, our job is to defend existing council housing, as well as campaigning for large scale council house building. Local Housing Revenue Accounts are grossly under-funded as a result of the 2012 'debt settlement' and government policies since then. We have just had a reminder of the scale of underfunding by Manchester Council. In a recent report it said that it was £438 million short of what it needed over it's

30 year business plan. This under-funding is generalised. In my own town the HRA is more than £300 million short of what is needed<sup>2</sup>.

As you know, debt cancellation would include the HRA debt. Independently of the question of the wider local authority debt, we are in favour of the cancellation of this debt, which is not the result of actual borrowing but of financial manipulation. It would be very useful if those of you in a position to, could let us know the latest situation with your HRA: what is the funding shortage over the remainder of your business plans?

Martin Wicks  
Secretary, Labour Campaign for Council Housing

**Postscript:** *Inside Housing* has just reported that Robert Jenrick has announced that the government would bring forward what he described as “a comprehensive plan” to put councils on a sustainable footing. What this means in practice remains to be seen. His colleague, local government minister Simon Clarke has told councils that they should not embark on a further round of cuts! Give us the money and we won't is the obvious response. This underlines that now is the time to step up the pressure on the government. Debt cancellation needs to be part of any package. Anybody spoken to Marcus Rashford yet? This is a government of u-turns.

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<sup>2</sup> To see a more detailed explanation of the case for cancelling HRA debt here is a [paper](#) I did for John Healey in an effort to persuade him to agree. Whilst he was not persuaded, Labour's Manifesto did include a commitment to review this so-called debt.