

10 MAY 2024

BRIEFING | THE STATE OF LOCAL GOVERNMENT FINANCE – BUILDING THE SECTOR’S FINANCIAL RESILIENCE

One of the priorities for NALC’s National Assembly is building the local (parish and town) council sector’s financial resilience. This is particularly important given the state of public finances and the financial challenges facing principal authorities.

According to the Local Government Information Unit’s recent [survey](#), around 50% of principal councils are concerned that they might go bankrupt in the next five years. There is an increasing expectation that local councils might pick up the discretionary “slack”, reflected in this year’s average increase in precepts of 8.5%.

There are two linked aspects to this:

- What can councils, county associations and NALC (working with Society of Local Council Clerks (SLCC) and others) do to prepare the sector for this challenge?
- How can we continue to develop the financial resilience of local councils of all sizes?

This was discussed at NALC’s Management Board on 26 March, in [National Assembly workshops on 9 April](#) and with the SLCC on 25 April. Individual committees have also considered the issue of financial resilience and this is being reflected in their work plans.

There has been general agreement that this is a significant issue for our sector posing both an opportunity and a threat to our councils and local communities. Discussions have also stressed the importance of working together nationally and locally and across the tiers.

The following initial proposals have been identified for further consideration:

For councils and councillors

1. Councillors take ownership of the challenge facing their councils and communities because of principal councils withdrawing from delivering

discretionary services. Debate with residents about what they want their councils to do, including possible precept increases needed to counter loss of services.

2. Make sure your council is financially fighting fit with sound budgeting and financial reporting and adequate reserves, increasing reserves if new services are taken on. Complete your annual governance and accountability return on time and have a robust internal auditor.
3. Build capacity of councillors and clerks/employees. Proactively seek to get more people involved in the work of the council and standing for election. Recruit, train, and retain good quality clerks and other employees, offering good terms of employment and realistic hours for the job.
4. Work in partnership with other local councils where capacity is limited. Larger councils consider what role they could play supporting smaller neighbouring councils such as a central hub and spoke role.
5. Engage with your principal councils and county associations.
6. If you are considering taking on discretionary services make sure you have done all due diligence, sought expert advice where necessary and entered into legal agreements where appropriate.
7. Use resources from NALC that can assist such as the Good Councillor's Guide, Good Councillor's Guide to Finance and Transparency, Model Financial Regulations, Local Council Award Scheme, Make a Change campaign, Practitioners Guide, Civility and Respect campaign, template contract of employment and HR advisory service.

For county associations

1. Help local councils prepare for the challenge ahead with events, training and local advice and resources, and signpost to NALC support and resources.
2. Engage other tiers of local government to understand the implications for our sector, the potential role our councils could play and the help they need. Some county associations have developed protocols or memorandum of understanding with principal authorities, sometimes part of a devolution or asset transfer programme. Examples include [Oxfordshire](#) and [Northumberland](#).
3. Ensure training and support is in place for councils on key financial issues, working with the SLCC where appropriate.

For NALC

4. Persuade the sector that it has a role in tackling the challenge.

5. Raise understanding in the media and with national stakeholders that the financial crisis facing principal councils will have implications for our sector. See for example the Guardian and Observer article on 30/3/24 entitled “England’s parishes and towns raise council tax surcharge to fund scrapped local services.”
6. Continue to press the government for abolition of council tax referenda principles and access to national grant funding as demonstrated by the success of the Community Ownership Fund.
7. Build on abolition of business rates on public conveniences and lobby government to extend this to other community and cultural assets.
8. Review and develop good practice guidance on devolution of services (especially for smaller councils).
9. Work with the SLCC to promote awareness of the challenge and develop sector capacity.
10. Regularly update Practitioners’ Guide and Model Financial Regulations.

For principal authorities

11. Realise that local councils can have a role supporting you during this financial crisis. But they need support, time, and access to information and income streams. Partnerships and collaboration, and building trust, are key as we are part of the same eco-system working to build stronger communities.
12. Use the Local Government Association report on Local Service Delivery and place-shaping and its framework to help local councils play an increased role in service delivery.
13. Consider developing protocols/memorandum of understanding with county associations to support this work. There are many examples such as charters in Lancashire and North Yorkshire and Somerset Council has recognized this in its devolution work.
14. Consider setting up local councils in unparished areas so that all communities benefit from the support this first tier of government can provide to local communities.

For central government

15. Recognise the role of local councils and their potential.

16. Abolish council tax referendum principles, open access to national funding streams and introduce exemptions from business rates for community and cultural assets.
17. Invest in building capacity and capability by supporting the work of the NALC/SLCC/DLUHC/LGA Improvement and Development Board (IDB) and its initiatives, provide dedicated sector support funding, and promote interest in standing in local elections.

For the Local Government Association and special interest groups such as County Councils Network and District Councils Network

18. Recognise the role of local councils and their potential.
19. Work with NALC to promote the role local councils can play supporting discretionary services during the current local government finance crisis.
20. Review, revise or issue advice, guidance, and good practice on co-operation between the tiers. Update the LGA report on Local Service Delivery (see above).
21. Support the development of sector capacity through the IDB including building on the success of the Peer Challenge programme for larger councils.

Initial actions and initiatives

- Smaller Authorities Audit Appointments (SAAA) developing new strategic plan which will support financial resilience and is supporting several initiatives including update to NALC Good Councillor's Guide to Finance and Transparency, new post at NALC to support JPAG and SLCC resources to develop internal audit function.
- March 2024: House of Lords debate on local government finances. NALC's president, Baroness Scott of Needham Market, spoke to ensure "the sector is not lost" in this important debate. Her contribution included an overview of the sector, its funding and recent trends, which she attributed to the growing role of local councils, including taking on more responsibilities from principal authorities. In her conclusion, she called on the government to increase the current local audit thresholds and ensure local councils have flexible and diverse funding as per NALC's [manifesto](#). See [Hansard](#) for full transcript.
- March 2024: Revised [Practitioners' Guide](#) published.

- April 2024: Jennifer Bevan, finance advisory network advisor at Chartered Institute of Public Finance and Accountancy, presented on financial resilience at Larger Councils Committee.
- April: Annie Child, chief executive of SAAA presented to Smaller Councils Committee.
- April: Online event on 25 April on local government finance with 120 delegates.
- May 2024: NALC Model Financial Regulations reviewed and published.
- July 2024: NALC/SLCC joint stand at LGA conference on 2-4 July.
- September 2024: Planned input to SLCC summit on local government finance.
- September/October 2024: Advocacy at political party conferences.
- December 2024: Publish updated version of Good Councillor's Guide to Finance and Transparency.