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What's happened and what's next for English councils?



Economic
and Social
Research Council

1. Impacts of COVID on council finances in 2020-21 and 2021-22
2. Medium-term outlook – spending needs, and options for raising revenue
3. Funding reform

COVID impacts



- Key role in pandemic response; extra costs to deliver existing services; lost income

COVID impacts

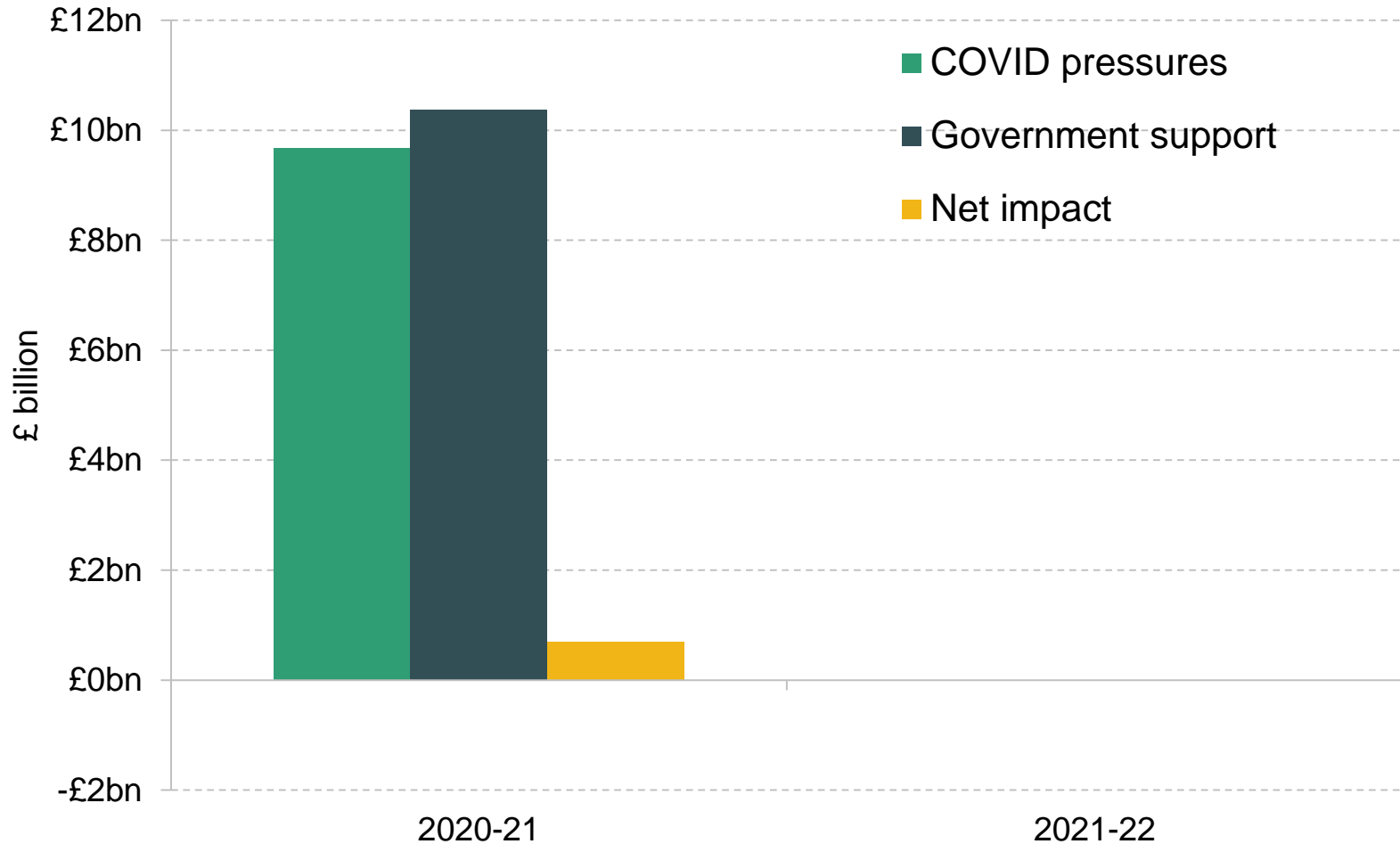


Figure 1.2. COVID pressures based on councils' estimates of additional expenditure and lost non-tax income, and exclude any losses of council tax or business rates, which affect budgets the following year.

COVID impacts

- Key role in pandemic response; extra costs to deliver existing services; lost income from paid-for services
- Government more than compensated for pressures overall in 2020-21
 - Rough funding allocations and only partial compensation for income losses
 - Some allowed extra borrowing powers
 - Croydon and Slough issued section 114 notices

COVID impacts

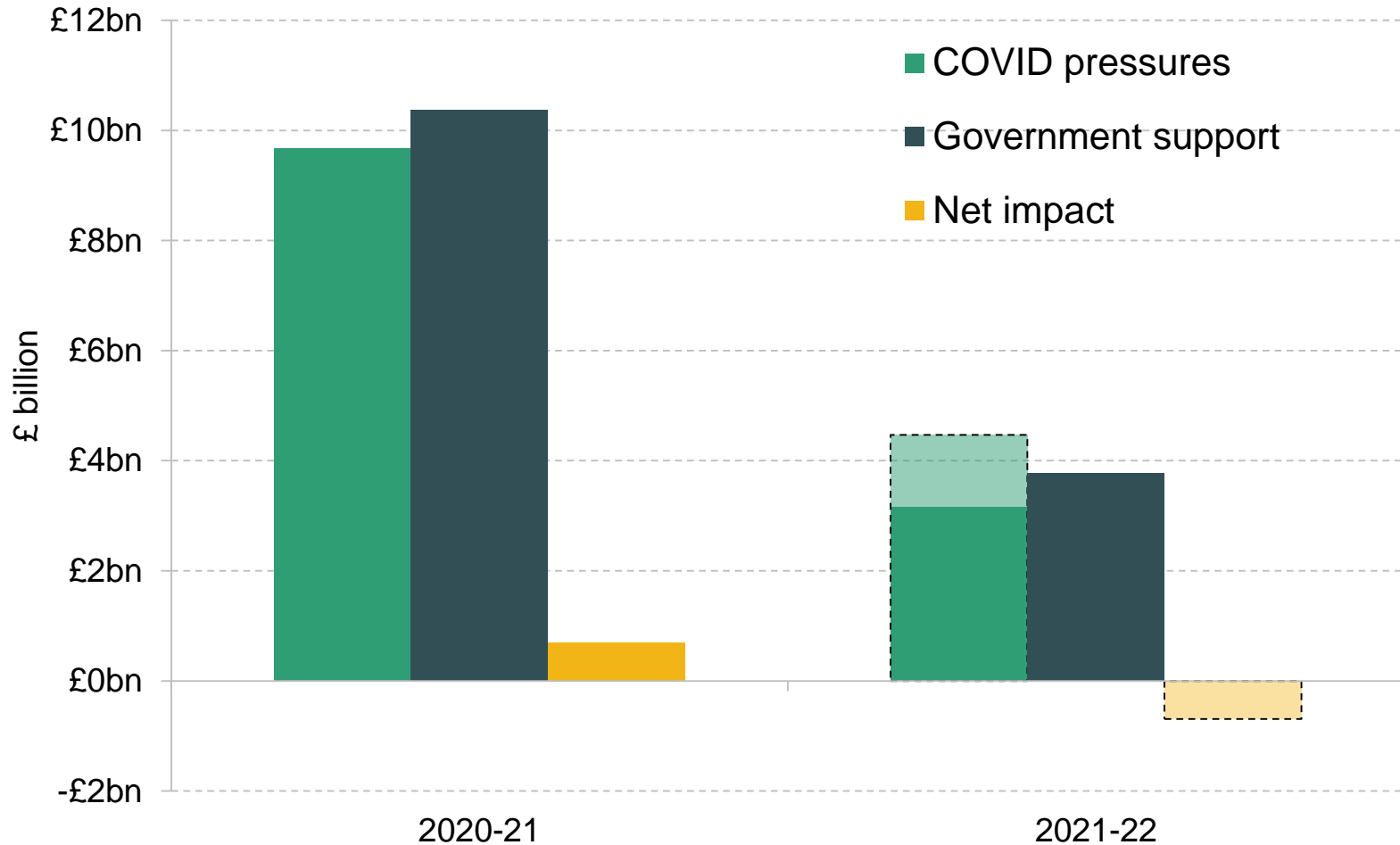


Figure 1.2. COVID pressures based on councils' estimates of additional expenditure and lost non-tax income, and exclude any losses of council tax or business rates, which affect budgets the following year. Support in 2021-22 includes Household Support Fund.

Medium-term spending needs

Increase in spending relative to 2019-20 needed to maintain service levels

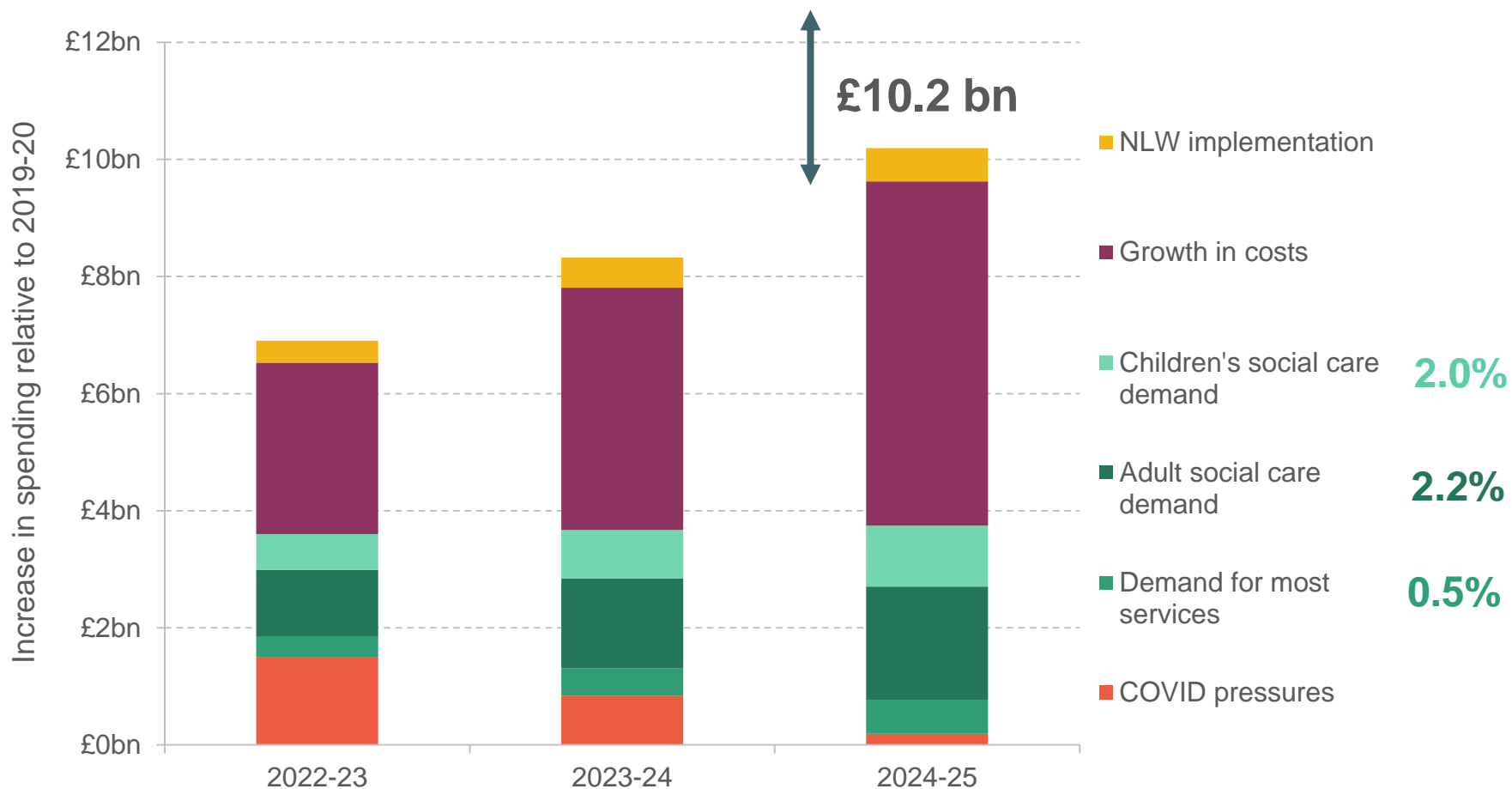


Figure 1.3. Baseline is 2019-20 spending outturns. Assumes no productivity growth, in line with recent trends, and that wage increases do not increase quality. Cost growth is a weighted average of increases in the GDP deflator and forecast growth in average earnings.

Medium-term revenues

Increase in revenues between 2019-20 and 2024-25

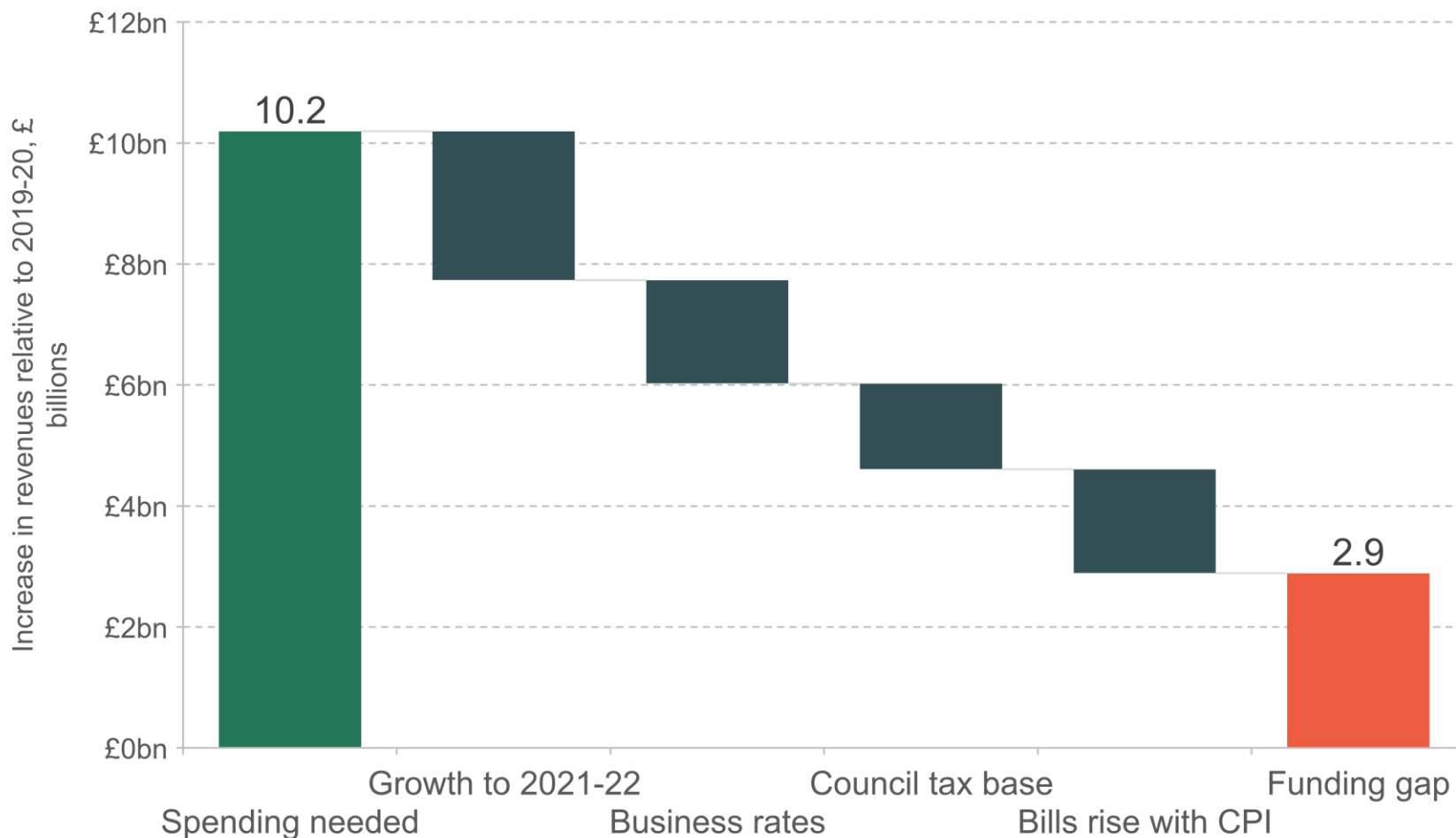


Figure 1.4. Assumes business rates grow with CPI in 2022-23, then follow the OBR forecast for retained rates. Council tax base grows in line with OBR forecast, reflecting changes in housing stock and CT discounts.

Filling the funding gap

Chancellor needs to find £2.9 bn in 2024-25 to avoid service cuts:

1. **Above-inflation increases in bills** – extra 2% rise each year could raise £1.8 bn by 2024-25
2. **Extra grant funding at the Spending Review** – but existing plans imply tight SR period for councils, with possible cuts to grants next year

If DLUHC does ‘averagely’ well from the SR → CT bills would need to rise by 3.6% each year to avoid a funding gap in 2024-25

- Adds £160 (£77 real-terms) to average bill
- Still leaves a £2.8bn shortfall next year (5% of spending needs)

Higher spend on e.g. NHS or schools catch-up could squeeze grants → CT bills would need to rise by more like 5% each year

Filling the funding gap

Increase in per-person council tax revenues between 2021-22 and 2024-25 if council tax bills rise by 4% each year (2% for districts)



Figure 1.5. Forecast council tax base growth and population growth vary by local authority. Figures are at upper-tier local authority. Bills rise by 2% or £5 each year for shire districts, and 4% for social care authorities.

- Fair funding review delayed to April 2023 at the earliest
- Funding formulas out of date
 - Popn. since 2013: Tower Hamlets (+21.3%), Blackpool (-2.3%)
- Large falls expected for some councils
 - Transitional arrangements easier with more funding
 - Ultimately spending better targeted

- Sufficient funding across the sector for COVID pressures in 2020-21; more may be needed in 2021-22
- Growing spending needs will mean above-inflation increases in council tax bills to avoid cuts – but next year looks especially difficult
- Council tax raises less in more deprived areas
- Delayed funding reforms need to take place

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