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Looking back to look forwards: what can we learn from data on the impacts of COVID-19 on councils in 2020–21?

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Executive summary

The COVID-19 pandemic has led to substantial increases in councils' expenditure and falls in their locally generated revenue, especially from sales, fees and charges (SFCs) and commercial activity. Our previous analysis has looked at *ex ante* measures of English councils' financial risk and resilience in the context of the pandemic, and *forecasts* and other rapidly available indicators of the potential impacts of the pandemic on councils' spending and incomes. This briefing note examines impacts for English councils using *outturns* data for 2020–21, compares these with expectations based on ex ante and rapidly available indicators, and considers the implications for both councils' current financial resilience and how the financial impacts of future extreme adverse shocks should be monitored.

Key findings

1 English councils were last surveyed by the government on the financial impacts of the COVID-19 pandemic in 2020–21 in April 2021. At this time, councils reported an increase in gross expenditure on non-education services of £6.7 billion, of which approximately £1 billion was covered by transfers from the NHS to cover additional adult social care costs. Reductions in SFCs income were estimated at £2.1 billion. This would mean an increase in net expenditure of £8.8 billion before accounting for the extra NHS transfers, or £7.8 billion after accounting for them.

2 Actual council expenditure and revenue outturns data for 2020–21 were published in December 2021. These show councils' net expenditure on non-education services increasing by £6.3 billion compared with the previous year. However, an increase of approximately £2.2 billion would have been expected in the absence of the pandemic, based on pre-pandemic budgets. This suggests the pandemic itself was associated with an increase in net expenditure of around £4.1 billion, not much more than half that previously reported by councils in their survey responses.

3 We cannot conclude that councils purposefully overstated the financial impacts of the COVID-19 pandemic. First, the surveys asked councils to identify increases in expenditure as a result of the pandemic, not areas where spending was lower. And there were areas where spending was reduced – for example, gross spending on culture and leisure services fell, driven by a 44% reduction in spending on 'theatres and public entertainment', likely due to lockdown measures. Second, some councils may have erroneously recorded part of their grant funding as 'other income', artificially depressing the change in their net expenditure – although this is unlikely to explain more than a small part of the discrepancy.

4 The scale of changes in expenditure and SFCs income across service areas varies significantly. Relative to what one might have expected in the absence of the pandemic, central and other services (+£1.3 billion), adult social care services (+£0.9 billion) and highways and transport (+£0.8 billion) saw the biggest increases in net expenditure. The first two were largely driven by higher gross expenditure, while the last was driven overwhelmingly by lower SFCs income, especially from parking. Public health also saw a notable increase in gross expenditure and culture and leisure services a big fall in SFCs income. In contrast, spending on children's social care services actually increased by somewhat less than might have been expected.

5 There was also significant variation in changes in expenditure and SFCs income across councils. The median council saw its per-capita net spending on services increase by 14.7% year-on-year, but a fifth of councils reported an increase in spending of over a third. Nine-in-ten councils saw their total income from sales, fees and charges fall, with the median change being a fall of 18%.

6 If another extreme adverse shock were to take place, the government would almost certainly wish to survey councils on the expected financial impacts, to guide its decisions over funding. However, based on experience in 2020–21, it should subject a proportion of survey responses to vetting and enquire about areas where spending is expected to be lower as well as those where it is expected to be

higher. Ex ante analysis of councils' financial risk and resilience may also be worthwhile: the indicators of reliance on SFCs income and financial reserves included in our 'dashboard' published in June 2020 are predictors of subsequent financial impacts.

7 The increase in councils' net expenditure in 2020–21 was substantially lower than the increase in funding that councils received – which had been informed by the (higher) survey-based estimates of the financial impacts of the pandemic. This means the financial position of the sector as a whole as it entered the current financial year, 2021–22, was better than was generally appreciated. And it may provide a justification for the government to have not met in full the additional financial pressures in 2021–22 identified by councils in their survey responses. Not unreasonably, most councils could instead draw down unused funding from last year (and the government may expect the final increase in net expenditure to again be lower than suggested by the survey responses).

8 However, some councils clearly have seen their financial positions deteriorate, sometimes significantly, during the COVID-19 pandemic. For example, while outturns data suggest a smaller increase in net expenditure by shire districts than would have been expected based on their survey responses, this does not mean they were 'over-compensated' for pandemic-related costs in 2020–21. This is because, in contrast to other council types, previous survey-based estimates of the financial impact of the COVID-19 pandemic suggested shire districts had been 'under-compensated'.

9 More significantly, seven councils were granted enhanced borrowing powers in 2020–21 and, in Croydon's case, a halt to new non-essential expenditure was also necessary. Moreover, rising demands and costs for social care services in particular mean the government should not underestimate the financial challenges facing the sector as a whole in the medium-to-longer term.

1. Introduction

Councils have played a key role in helping deliver much of the public sector response to the COVID-19 pandemic. They have taken on new public health responsibilities, playing an integral role in enforcing restrictions and contact tracing, as well as in encouraging take-up of vaccines. They have also stepped in to support local businesses and residents: providing practical help to vulnerable families and those shielding; paying grants to local businesses; and providing emergency accommodation for rough sleepers. The need for personal protective equipment (PPE) and social distancing has increased unit costs for a range of services, while demand for some services – particularly adult social care for those discharged from hospital – has risen.

The wider economic effects of the COVID-19 pandemic have also meant a decline in councils' revenues from local taxes, although accounting rules mean that these only started affecting councils' budgets with a delay. Reductions in income from sales, fees and charges (SFCs) as households and businesses used fewer paid-for services such as parking, leisure and cultural facilities, and from trade waste schemes, had a more immediate impact and one which has varied significantly across councils given their vastly differing reliance on such income.

Over the course of the pandemic, IFS researchers have analysed the impacts of this 'perfect storm' on English councils' finances, assessed the appropriateness of the additional funding and financial flexibilities provided by central government, and suggested a number of policy changes.

In June 2020, for example, we compiled and interrogated a series of *ex ante* indicators of both socio-economic and financial risk and resilience for councils (Ogden and Phillips, 2020a, 2020b), which yielded some striking patterns. In particular, reliance on income from SFCs that were particularly vulnerable to the crisis is much higher for shire districts than other council types, on average, but varies very significantly across the country.

From August, we began analysing *rapidly available* indicators of the impact of the COVID-19 crisis on councils' finances and local economies. Our analysis of councils' own financial forecasts (Ogden and Phillips, 2020c; Ogden, Phillips and Spiliotis, 2020; Ogden and Phillips, 2021; Ogden, Phillips and Siôn, 2021) found that between Summer 2020 and March 2021, increases in the amount of additional government funding for councils more than addressed initial forecasts of a funding shortfall of around £2 billion in 2020–21. Our analysis of changes in household spending (Davenport et al., 2020) and labour market indicators (Davenport, Ogden and Phillips, 2021) illustrated the impacts of public health restrictions on consumer spending, including on leisure and parking services that councils often provide, and highlighted how London and more deprived areas had seen the largest increases in unemployment and biggest falls in council tax payments.

The final stage of our work on impacts of the COVID-19 crisis on councils' finances in 2020–21 is to examine *outturn* data on councils' spending and income. What were the actual financial impacts of the pandemic at both a national and local level? How do these impacts compare with our expectations based on *ex ante* and *rapidly available* data? What lessons can be drawn from this comparison for how councils' finances should be monitored during potential future COVID-19 waves or other similar crises? And how does the newly available outturns data affect our view of the immediate financial resilience of English local government?

These questions are the focus of this report. The answers to them matter because they can help guide future funding policy for councils, not only in another major adverse shock, but also over the next few years as the impact of the COVID-19 pandemic hopefully continues to abate. In particular, how the actual costs faced by councils last year compare with the additional funding they received has a bearing on whether the government should top up its funding for the remainder of this year or next, given ongoing COVID-19 costs.

The rest of the report proceeds as follows. Section 2 looks at the impacts of the COVID-19 crisis on councils across England as a whole, including how forecasts of the financial effects varied during the course of the year, and how the latest estimates compare with official outturns data. Section 3 looks at how impacts varied across council areas, and the extent to which these correspond to the patterns of risk and resilience identified in Spring/Summer 2020. Section 4 concludes with a discussion of the implications of our findings for both central and local government.

2. The evolution of the national picture during 2020–21

The COVID-19 pandemic has been an evolving crisis, with disease prevalence and the public health restrictions in place ebbing and flowing over the last nearly two years. Did these changes lead to significant changes in the expected financial impacts on councils in the first year of the pandemic, 2020–21? And do recently published financial outturns data suggest these expectations were borne out?

How impact estimates and forecasts evolved

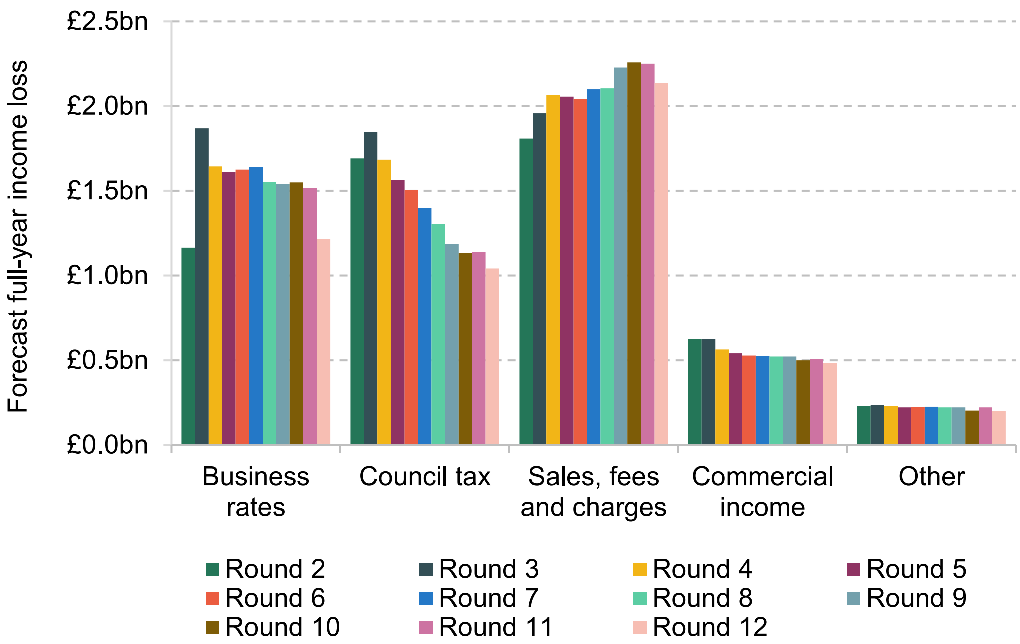
Since April 2020, the government has surveyed councils each month to monitor the impact of the COVID-19 pandemic on their finances, and in turn inform its decisions on how much and in what ways to provide additional financial support to councils. These surveys have typically asked for estimates of the expenditure and income losses incurred as a result of the pandemic in the previous month, as well as forecasts for these impacts in the current month and the full financial year.

Comparing the estimates and forecasts councils made across survey rounds allows us to consider how councils' expectations evolved, as well as how the pattern of spending changed month-to-month. We would expect these changes to reflect updated assumptions about the course of the pandemic and its impact on council services, as well as changing government policies and the announcement of new responsibilities and funding for councils. Less helpfully, there were also several changes to the survey guidance councils received. For instance, they were initially asked to assume in their full-year estimates that the situation returned to pre-COVID-19 expectations after July 2020; in later rounds, the Ministry of Housing, Communities & Local Government (MHCLG) changed this guidance, so later estimates should reflect councils' own planning assumptions.[1]

Council tax and business rates

Initially, councils forecast substantial losses of income from council tax and business rates (a property tax paid by local businesses), peaking at a combined total of £3.7 billion in Round 3 (June). As shown in Figure 2.1, councils gradually revised down these estimates each month thereafter, with particularly large downwards revisions in forecast council tax losses. In the latest survey round (April 2021), they estimated losses in 2020–21 of a combined £2.3 billion: £1.0 billion for council tax and £1.2 billion for business rates (Table 2.1).

Figure 2.1. Estimates of income losses due to COVID-19 in 2020–21, by source of income and survey round



Source: MHCLG (2021a), rounds 2 to 12 (May 2020 to April 2021). There was no survey in December 2020.

[1] MHCLG was renamed the Department for Levelling Up, Housing and Communities (DLUHC) in September 2021. We refer to publications prior to this as being from MHCLG and those after this as being from DLUHC.

Table 2.1. Estimates of income losses due to COVID-19 in 2020–21, based on survey round 12 (April 2021)

Source of income	£ million
Council tax	1,041
Business rates	1,216
Sales, fees and charges	2,138
Commercial income	484
Other income	199
Total income	**5,077**

Note: Council tax figures represent the full value of losses reported by billing authorities, so include the share of losses attributable to other authority types, such as police services and combined authorities. Figures may not sum due to rounding. Income losses do not account for government compensation schemes.

Source: MHCLG (2021a), round 12 (April 2021).

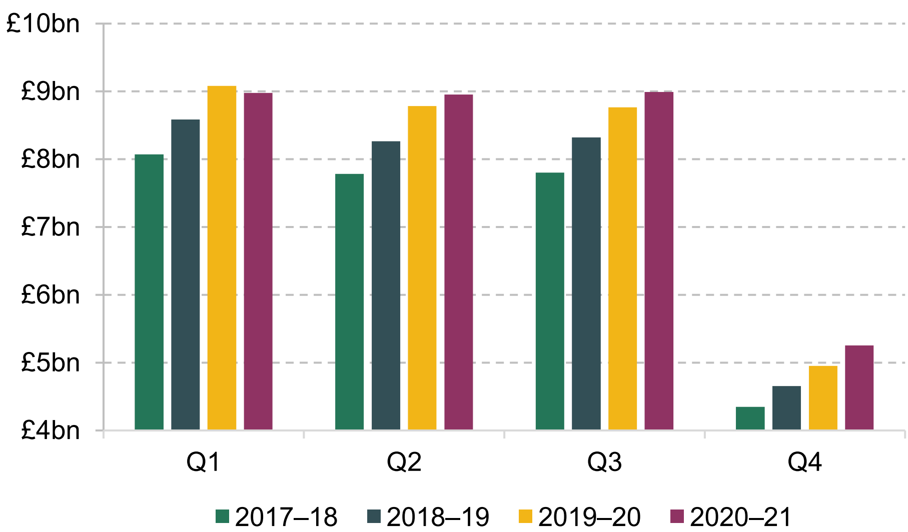
These revisions may be explained by an improvement in expectations for employment and incomes (and wider economic recovery more broadly) during the year, which will have allowed a greater proportion of households to continue to pay their council tax bills. For instance, in July 2020, the OBR forecast that the unemployment rate would rise to 9.1% in Q2 2020 and would peak at 11.9% in Q4 2020 (Office for Budget Responsibility, 2020b). In fact, the unemployment rate was much lower at 4.1% in Q2 2020, and by November the OBR forecast for the unemployment rate in Q4 2020 was only 4.8% (Office for Budget Responsibility, 2020c). This significant revision of expectations can be partly attributed to the government's announcements of further support for households and businesses, such as the repeated extension of the furlough scheme, which supported employment and household incomes. Indeed, the shock to people's incomes and living circumstances was most acute in the first months of the pandemic, with average earnings ending 2020–21 higher than they started, and employment starting to recover by the end of the financial year (HM Revenue & Customs and Office for National Statistics, 2021).

On council tax specifically, real-time evidence from bank accounts linked to a budgeting app suggests that while many households that usually paid council tax in

2019–20 had missed payments in April and May 2020, many of these did make council tax payments in subsequent months (Davenport, Ogden and Phillips, 2021). In part, this may reflect the fact that many councils allowed at least some taxpayers to agree alternative payment plans: to move from paying between April 2020 and January 2021 to between June 2020 and March 2021, for example. Indeed, data from councils' financial management information (FMI) returns suggest such plans were granted to around 4% of taxpayers (Davenport, Ogden and Phillips, 2021). And councils also paused enforcement action against non-payers for several months, restarting this at the end of Summer 2020. Such factors should have been built into councils' forecasts, but a higher share of people placed on alternative payment plans may have complied with them than was initially expected, and enforcement actions may have been more successful than expected – both perhaps reflecting the improved economic environment.

The recovery in council tax revenues during the course of the year can be seen in quarterly revenues data. After falling 1.1% year-on-year in the first quarter of 2020–21, receipts in the final quarter were up 6.1% year-on-year. However, full-year collections increased by just 1.9%, compared with pre-COVID forecasts of around 5.3%. This amounts to a difference of just under £1.1 billion – very similar to the £1.0 billion shortfall in collections reported by councils in their most recent FMI returns (round 12, April 2021).

Figure 2.2. Council tax receipts by quarter, 2017–18 to 2020–21



Source: DLUHC, 2021a.

The amount of business rates revenues councils collected was also significantly reduced. Much of this is explained by the government's expansion of business rates reliefs, including the Expanded Retail Discount relief, which was worth £11.1 billion. Councils received additional grants from government to compensate for income forgone due to these enhanced reliefs.

However, provisional data on councils' collections show that they significantly increased their provisions for unpaid bills and appeals against rateable values – by approximately £0.9 billion in each case (DLUHC, 2021b). In other words, councils expect that relative to previous years, more businesses will appeal successfully against their rateable values, and more unpaid bills will eventually be written off (e.g. if ratepayers go out of business). Previously, they estimated an 'exceptional deficit' for business rates in 2020–21 amounting to £1.7 billion (DLUHC and MHCLG, 2021a).

What is the impact of these falls in local tax collections on councils?

After accounting for the fact that part of the fall in council tax collections is the result of an increase in the generosity of means-tested support for low-income families which has been funded by a special government grant, councils estimate an 'exceptional deficit' in their council tax collections of £509 million in 2020–21 (MHCLG, 2021b). Councils' share of the business rates losses amounts to just under £1.1 billion (given the 'central share' of business rates which is paid over to central government) (DLUHC and MHCLG, 2021a, table 4a).

At the Spending Review 2020, the government confirmed that it would compensate councils for 75% of the exceptional deficits in council tax and business rates income in respect of 2020–21: the 'local tax income guarantee'. Councils have also been allowed to spread the impact of the remaining 25% of the deficits over three financial years (2021–22 to 2023–24) rather than just the current financial year (2021–22). This means the eventual impact of council tax and business rates losses incurred in 2020–21 will be to effectively reduce councils' revenues by approximately £130 million in each of the next three financial years.

SFCs, commercial and other income

In contrast, losses of sales, fees and charges (SFCs) income – fees associated with the provision of council services, such as planning, leisure services and parking –

had an immediate impact on councils' finances in-year. Figure 2.1 above shows that expected full-year losses of SFCs income increased during the year, with the largest revisions in rounds 3, 4 and 9 (June and July 2020, and January 2021). Revisions in June and July may be linked to the change in the guidance over the assumptions about the pandemic that councils should make; changes in January may instead reflect real changes in expectations, as it became clear that the post-Christmas lockdown would last several months. More generally, it became clearer as the year went on that the course of the pandemic and restrictions would mean consumer behaviour and use of council services would be depressed for much of the year. Total forecast losses of SFCs income in 2020–21 were £2.14 billion at the latest survey round, 18% (£330 million) higher than expected at the start of the year.

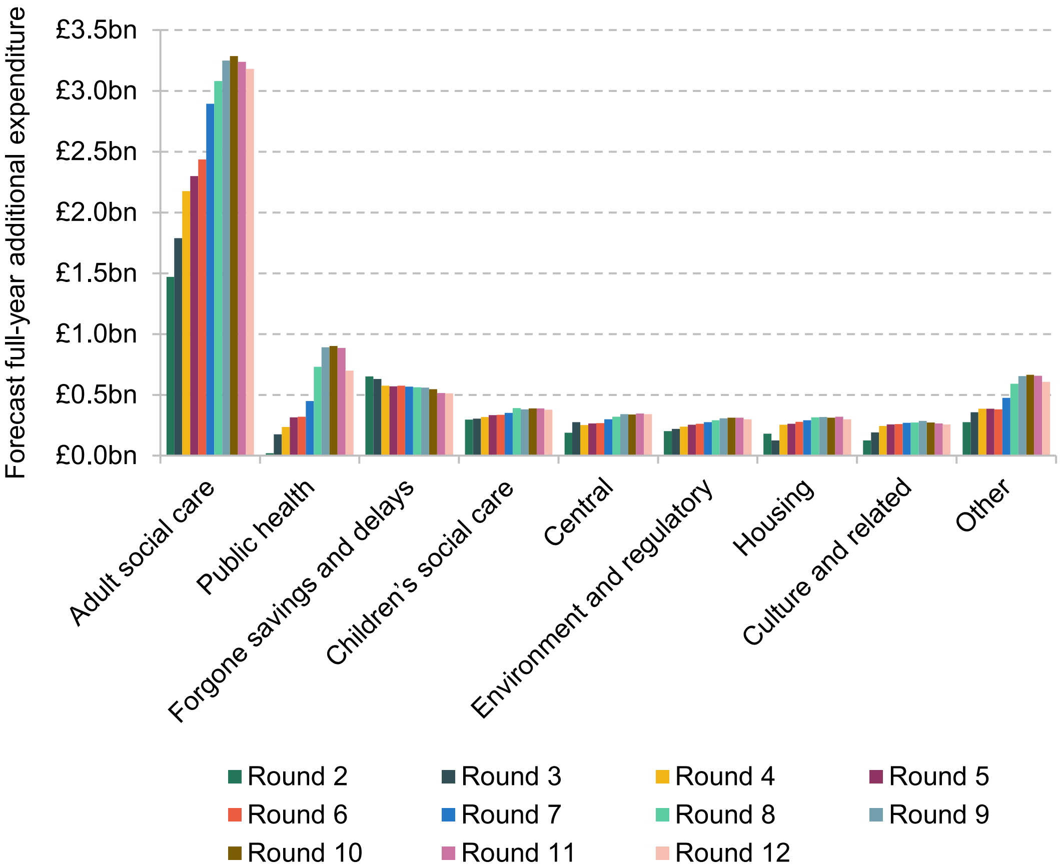
Forecast losses of commercial income – relating to council-owned businesses and commercial property – were revised downward slightly from £0.62 billion at the start of the year to £0.48 billion by the final survey round. This may also be linked to the improved economic outlook, which increased the likelihood of, for example, collecting rent from commercial tenants.

Spending on services

Turning to spending, full-year forecasts for additional expenditure on most service areas increased during the year. Estimates of additional expenditure on adult social care rose steadily each month, from £1.5 billion to a final estimate of more than £3 billion by round 12 (April 2021), as shown in Figure 2.3. Councils reported that additional spending to support people discharged from hospital, and changing the way services were provided (such as implementing infection control measures and avoiding staff working across multiple sites), increased costs. Over the course of the year, it became evident that these higher demands and costs would persist for longer than initially thought, but there were also significant announcements throughout the year of additional support for councils' social care costs, including several tranches of infection control funding (totalling £1,146 million) and funding for rapid testing (£149 million) and workforce capacity (£120 million).

Forecasts of spending on public health also rose notably through the year, from being negligible to begin with, to £0.7 billion in the final survey round. This followed a shift in government policy to involve local councils more in its Test and Trace programme, in compliance and enforcement of COVID restrictions, and later in encouraging uptake of the vaccine. These new responsibilities came with additional funding, totalling £1.8 billion by the end of the year (although some of the additional spending funded by the Contain Outbreak Management Fund is likely included under 'other' spending, as 'costs associated with enforcements').

Figure 2.3. Estimates of additional expenditure due to COVID-19 in 2020–21, by service area and survey round



Note: Excludes spending on education, highways and transport, planning and development, police, and fire and rescue, which were together estimated to add £0.29 billion to expenditure in 2020–21 in the final survey round. 'Other' excludes forgone savings and delays.

Source: MHCLG (2021a), rounds 2 to 12 (May 2020 to April 2021). There was no survey in December 2020.

In general, across other service areas, forecasts for additional expenditure trended upwards as it became clearer that restrictions would be reimposed during 2020–21. There were also several tranches of general-purpose funding announced through the year (in March, April, July and October 2020). Even if councils' expectations of the pandemic and its impact on services were unchanged, we may expect news of further funding to increase the amount they expected to spend on the pandemic response.

Table 2.2. Forecast additional expenditure as a result of the COVID-19 crisis in 2020–21: £ million and as a % of item in 2019–20

Service area	Additional expenditure, £ million	% of net spending in 2019–20	% of gross spending in 2019–20
Adult social care	3,181	18.8	13.4
Public health	698	21.6	20.6
Children's social care	379	3.8	3.5
Housing and homelessness	299	17.3	9.3
Environment and regulatory	299	6.4	4.5
Culture and leisure	257	11.9	7.4
Highways and transport	93	4.7	1.8
Planning and development	18	1.7	0.7
Finance and corporate	341	12.1	5.6
Forgone savings and delays	512	n/a	n/a
Other	608	n/a	n/a
Total additional non-education expenditure	**6,685**	**15.0**	**10.3**

Note: Additional expenditure on 'finance and corporate' is compared with spending on central services in 2019–20 outturns, excluding internal recharges. 'Other' spending excludes forgone savings and delays. Excludes additional expenditure on police and fire services (£3 million).

Source: Authors' calculations using MHCLG (2021a), round 12 (April 2021) and MHCLG (2020).

In total, councils were forecasting additional expenditure of £6.7 billion on non-education services in round 12 (April 2021),[2] equivalent to 15% of net spending or 9.5% of gross spending in 2019–20. As shown in Table 2.2, the largest single area of additional spend was expected to be adult social care, followed by public health. The greatest proportional increase (relative to both net and gross spending in 2019–20) was public health; this has generally been a small (and declining) area of spend in recent years. Forecast pressure on children's social care services was much more modest.

The pattern of forecasts for lost non-tax income and additional spending each month also changed through the year. Figure 2.4 shows the forecasts for monthly income losses and additional spending each month, where the estimate for a given month is taken from the last survey round in which councils were asked about impacts in that month.

These monthly estimates suggest combined impacts on budgets of around £1 billion each month between April and June 2020, coinciding with the most stringent restrictions and greatest disruption to council services. These fell to around £0.6–0.7 billion a month between September and November 2020, before rising modestly during the winter. The large jump from £0.9 billion in February 2021 to over £1.25 billion in March may reflect some combination of costs associated with preparations for reopening from lockdown, and a desire by councils to spend money that could otherwise be lost before the year-end.[3]

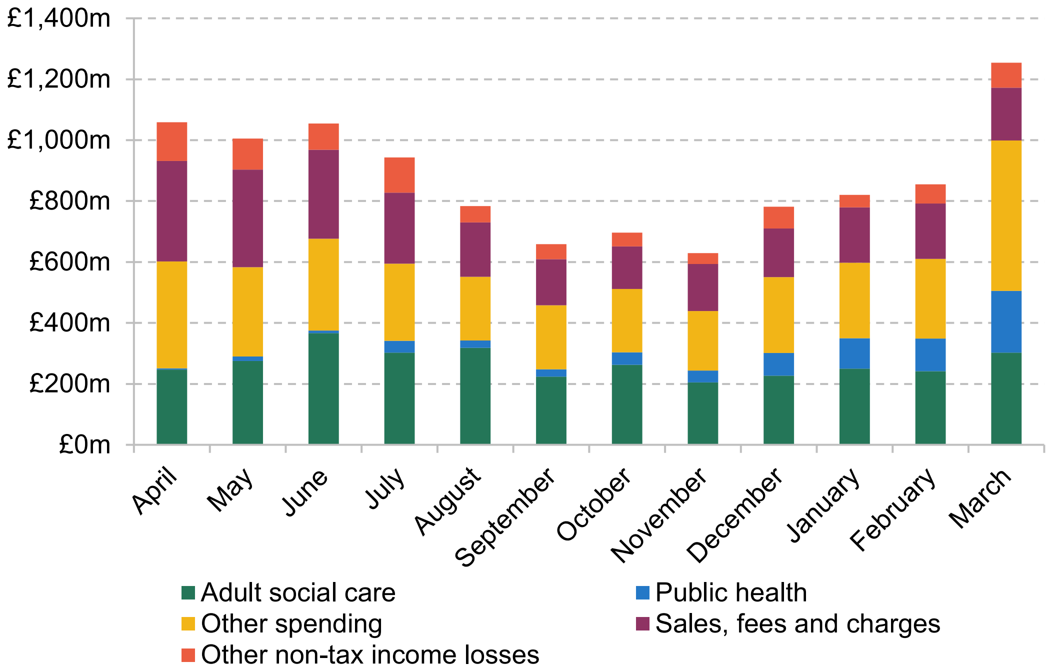
The monthly data also show a shift in the nature of financial impacts over time. Increased expenditures on public health made up a growing share of overall impacts over time. Forecasts of monthly losses of income from sales, fees and charges fell by almost 60% between April and October 2020, and remained only a little more than half the April 2020 level during England's third lockdown between January

[2] While councils' forecasts included additional education expenditures, particularly in relation to home-to-school transport, the vast majority of council education spending consists of passing on ringfenced funding to schools, and is effectively outside of councils' control. Changes in councils' education spending over time are also influenced by the conversion of maintained to academy schools, which instead receive their funding directly from the Department for Education. This makes the interpretation of changes over time difficult. For a discussion of school spending during the pandemic, see Farquharson, Sibieta and Waltmann (2021).

[3] It is also worth noting that there is a discrepancy between the monthly and annual estimates provided by councils to MHCLG: the former exceed the latter by 9%, on average, suggesting councils may have initially overestimated monthly impacts (they were only able to revise each monthly submission once).

and March 2021. This perhaps reflects both the smaller declines in travel seen in later lockdowns, and the lower baseline income levels from leisure and culture facilities in particular during winter.

Figure 2.4. Forecast additional spending and non-tax income losses in 2020–21, by month



Note: Includes figures imputed by MHCLG where councils failed to submit returns. Uses latest available forecast for each month. Monthly estimates sum to more than latest forecast for pressures across the whole year. Excludes losses of council tax or business rates.

Source: MHCLG (2021a), rounds 1 to 12 (April 2020 to April 2021). There was no survey in December 2020.

How do outturns compare with the latest estimates?

The Department for Levelling Up, Housing & Communities (DLUHC) has now published the annual revenue expenditure *outturns* data from councils for 2020–21 (DLUHC, 2021c). These describe how much councils actually spent on providing services, and the income they received, last financial year. We still do not (and cannot) know what councils' spending in 2020–21 would have been in a counterfactual world in which the pandemic did not affect their finances. Instead, to estimate the impact of the COVID-19 pandemic, we can compare the changes in spending and income reported in these outturn data with budgeted changes in spending from prior to the pandemic and past trends in income. We can then, tentatively, compare the outturns-based estimates with the estimates that councils reported in the FMI returns discussed above.

The final outturn data for 2020–21 show that councils' net service spending – spending on providing services, less any SFCs or 'other' income – was £50.8 billion in 2020–21.[4] This was £6.3 billion (14.2%) higher than what outturns data say they spent in 2019–20. However, not all of this increase can be attributed to the impact of the COVID-19 pandemic. Net spending would almost certainly have increased without the pandemic – to meet rising costs and demands, and reflecting fairly substantial pre-planned increases in funding, as the government loosened its purse strings after a decade of austerity. For example, core spending power (which includes council tax, business rates and most grant funding) was set to increase by 6.2% in cash terms in 2020–21.

Based on councils' pre-COVID budgets for 2020–21 – which were for a 4.8% increase in spending compared with budgeted spend in 2019–20 –[5] and accounting for the fact that outturns and budgets systematically differ somewhat,[6] we estimate that £4.1 billion of the overall £6.3 billion increase in net spending was 'unexpected'. This is our tentative estimate of the impact of the COVID-19 pandemic on councils' net service spending.

As shown in Table 2.3, by this measure, the COVID-19 pandemic appears to have led to a large increase in net spending on adult social care services (£933 million) and public health spending (£486 million), but central and other services emerge as the area with the biggest increase (£1,317 million). Transport also saw a much bigger increase in net spending than might have been expected (£775 million), but as we discuss further below, this relates overwhelmingly to reduced SFCs income

4 This is based on actual outturn data for 315 (93%) of councils, and on DLUHC projections for the remaining councils where 2020–21 outturn data are unavailable.

5 We are missing budget data for 17 councils (5%) in 2020–21, and some others adjusted their budgets to reflect early estimates of COVID impacts. We assume that budgeted spending by these councils on each service area would have changed in the same way as budgets for other councils.

6 In particular, we multiply 2020–21 budgets by [2019–20 outturns]/[2019–20 budgets], by service area, in effect assuming the same proportional over- or under-spend by service area seen in 2019–20 would have persisted in 2020–21 in the absence of the COVID-19 pandemic. If we did not make this adjustment, our estimate of the impact of COVID-19 on councils' net expenditure would be £4.3 billion.

rather than increased expenditure. Net spending on all other service areas also increased by more than budgeted with the exception of children's social care services, where the difference between the 5.6% actual increase and the 7.7% budgeted increase amounts to £210 million.

Table 2.3. Increase in net spending by service area between 2019–20 and 2020–21, and estimated impact of the COVID-19 pandemic on net spending

Service area	Increase in outturn net spending, £ million	% change in outturns	% change in budgets	Implied 'impact of COVID' in 2020–21, £ million
Adult social care	1,810	10.7%	5.2%	933
Public health	558	17.3%	2.2%	486
Children's social care	558	5.6%	7.7%	–210
Housing and homelessness	256	14.8%	9.4%	94
Environment and regulatory	341	7.2%	4.0%	155
Culture and leisure	438	20.3%	3.3%	366
Highways and transport	705	35.7%	–3.6%	775
Planning and development	362	33.9%	13.7%	216
Central and other services	1,309	46.3%	–0.3%	1,317
Total increase in non-education service spending	**6,336**	**14.2%**	**4.8%**	**4,132**

Note: Total excludes police and fire services. 'Central' and 'other' services have been combined. Actual change in outturns is based on actual outturn data for 93% of councils, and on DLUHC projections for the remaining councils where 2020–21 outturn data are unavailable. Change in budgets is percentage change between 2019–20 budgets and 2020–21 budgets, assuming the same average change in net spending between budgets by service area for the 17 councils (5%) where no 2020–21 budget is available, and for any council that reported adjusting its estimate of a specific spending line to reflect COVID impacts. Estimated 'impact of COVID' assumes outturns in 2020–21, in the absence of COVID-19, would have increased relative to 2019–20 outturns by the same percentage change as between the budgets for the same years.

Both additional gross expenditure, and reductions in SFCs income (which is netted off gross expenditure), will have increased councils' net spending on services relative to a world without the COVID-19 pandemic. But how can we reconcile these outturns-based estimates (£4.1 billion) with councils' own much higher estimates for additional expenditure and lost SFCs on these service lines (£8.8 billion) reported in their latest FMI returns (round 12, April 2021)?

Some caution is needed.

First, as well as netting off SFCs income, councils also net off a range of other income from their gross expenditure to produce their net expenditure figures. This includes negotiated transfers from other public sector bodies, most notably from NHS Clinical Commissioning Groups (CCGs) to help pay for the costs of adult social care services. As Figure 2.5 later shows, there was a substantial £1.3 billion increase in the amount of 'other' income recorded for adult social care services. And councils reported receiving a contribution of approximately £1 billion from CCGs for the additional costs associated with the COVID-19 pandemic.[7] However, even after adding these CCG contributions back in, outturns-based estimates of the change in net spending (£5.1–5.4 billion) are still substantially lower than the estimates reported in FMI returns (£8.8 billion).

A second possibility is that some of the additional expenditure reported in FMI returns related to capital expenditure which is not captured in the outturns data we are using. However, it seems implausible that this can explain such a large discrepancy: the amount of funding transferred to the capital budget was little changed from the previous year; and separate capital outturns data suggest lower capital expenditure than budgeted for in 2020–21 as public health restrictions and economic uncertainty held up construction projects and land and building acquisition (DLUHC, 2021d).

Third, we cannot discount the possibility that some councils misrecorded certain COVID-19 grant funding as 'other income' netted off gross expenditure rather than as part of their grant funding – although this again would likely only explain a small part of the observed discrepancy. Moreover, some councils appear to have erroneously recorded government grants that they disbursed to local businesses as

[7] Based on forecasts in February 2021. See Ogden and Phillips (2021).

spending on 'economic development' or 'business support' in their outturns data. This would mean net spending on planning and economic development may be somewhat overstated in these data, and in particular overstated relative to data reported in the FMI returns, which explicitly excluded such grant funding.

While the magnitudes are uncertain, it therefore seems highly likely that the increase in net expenditure was less than implied by councils' estimates as reported in their FMI returns. Caution is still needed in interpreting why this is though.

Given that these data were used by the government to help decide how much additional funding to provide to councils, and were not subject to the same oversight as formal budgets or outturns data, councils may have faced a financial incentive to overestimate likely financial impacts. However, we cannot confidently conclude that councils purposefully exaggerated or overestimated the financial impacts of the COVID-19 pandemic. In particular, councils were asked to report gross financial pressures as a result of the COVID-19 crisis and not areas where expenditure was expected to be lower. This matters because spending on demand-led services may have fallen if people were not coming forward for support during the pandemic. Changes to the way services were delivered (such as moving them online) may also have reduced certain costs. And fearing the financial repercussions of the COVID-19 pandemic, some councils may have made in-year cuts to spending in order to continue to balance their budgets: a National Audit Office (2021) survey found that 53% had made unplanned savings to service budgets in response to COVID-19 pressures.

Still it remains the case that net expenditure seems to have increased by much less than FMI estimates suggested it might. And given that the amount of funding councils in aggregate received to address COVID-19 pressures modestly exceeded the pressures reported in FMI estimates (Ogden, Phillips and Siôn, 2021), this implies that English councils overall actually saw a boost to funding that substantially exceeded overall increases in spending and falls in income, likely to the tune of billions of pounds.

The extent of this difference does seem to vary across types of council. In particular, the breakdowns available in published FMI survey data allow us to separate out shire districts from other types of council. Overall, net spending by shire districts increased by £726 million (26%) between 2019–20 and 2020–21. Based on councils' budgets, we estimate this would have increased by only

£149 million (5.2%) in the absence of COVID, leaving £577 million of the actual increase 'unexplained'.[8] While this is still lower than the £846 million of additional expenditure and losses of SFCs income previously reported in councils' survey responses, the difference is less stark than for all councils. Moreover, in previous analysis (Ogden, Phillips and Siôn, 2021), we found that in contrast to other types of council, shire district councils were 'under-compensated' for the pressures they reported in their FMI returns – to the tune of around £240 million. Thus, while the actual increase in net spending by shire districts is less than one might have expected based on their FMI returns, again in contrast to other types of councils, this does not imply significant 'over-compensation' for shire districts.

What drove changes in net spending across different services?

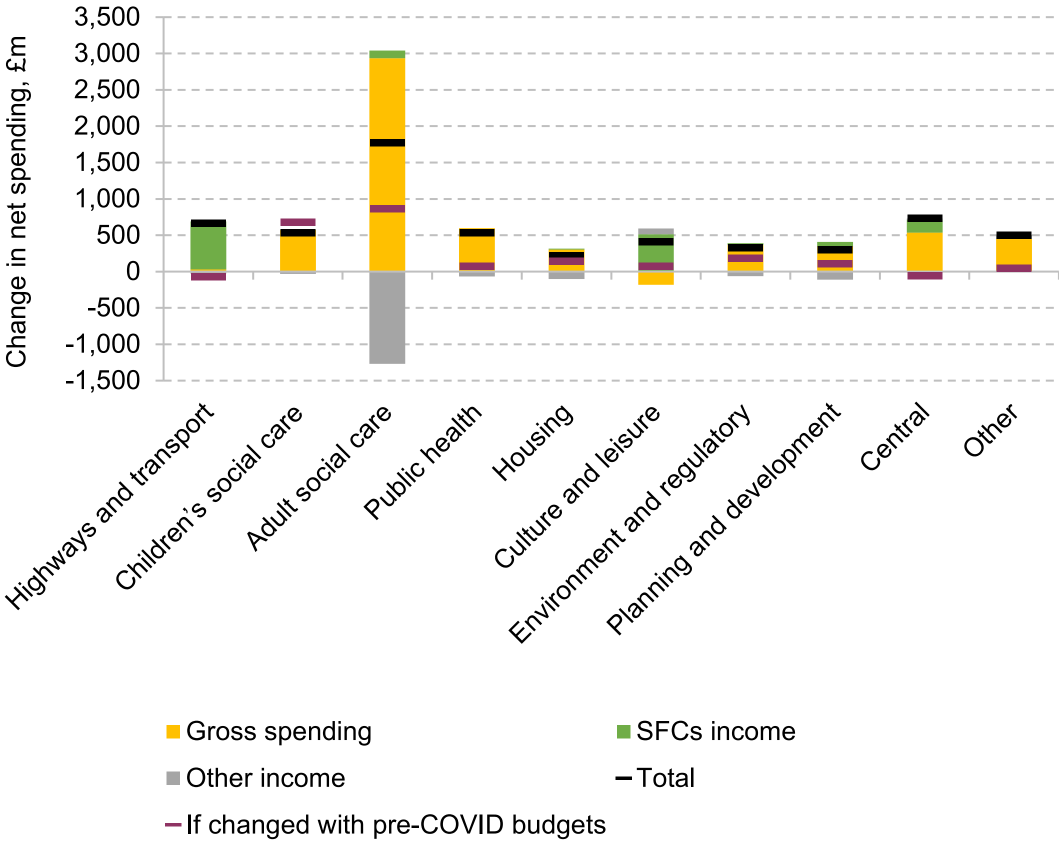
As already highlighted, increases in net spending can be decomposed into increases in gross expenditure (employees and running costs), and decreases in SFCs and other income. Here, we will simply compare 2019–20 and 2020–21 outturns; the method we used to estimate the change in net spending in the absence of the COVID-19 pandemic is not possible for gross expenditure and income as these breakdowns are not provided in budget data. We also include only the 315 councils (93%) for which we have 2020–21 outturn data, as while DLUHC imputes for missing net spending it does not do so for gross spending or income.

Overall, gross spending on non-education services by these councils increased by £5.9 billion (9.6%) and income from sales, fees and charges fell by £1.5 billion (14.8%). This was partially offset by an increase of £1.5 billion (16.6%) in 'other income' – much of which represents the aforementioned increase in transfers from CCGs to pay for adult social care services.

The drivers of overall changes in net service spending are very different across service areas, as shown in Figure 2.5.

[8] This estimated 5.2% increase between budgeted net spending in 2019–20 and pre-COVID budgets in 2020–21 excludes data from Spelthorne council, which forecast a particularly large rise (+£49 million) in net spending on planning and development services. If Spelthorne is not excluded, our estimate of the implied 'impact of COVID' on the net spending of shire district councils would fall from £577 million to £502 million.

Figure 2.5. Change in net spending by service area between 2019–20 and 2020–21 outturns



Note: 'Gross spending' and 'other income' relating to central services exclude internal recharges. Includes only the 315 councils (93%) for which we have 2020–21 outturn data.

Source: Authors' calculations using MHCLG (2020) and DLUHC (2021c).

For example, the vast majority of the change in net spending on highways and transport is due to falls in SFCs income, of which 90% relates to parking. Income from off-street parking fell by 54% (£356 million) and from on-street parking by 26% (£233 million). Reductions in footfall for shopping and commuting, and for tourism in some areas, will have reduced fees from paid-for council-owned council parking and the volume of parking fines. Some councils may have also chosen to lower parking charges to incentivise people to return to local high streets, which would also reduce transport SFCs, but this is hard to discern in the data.

Gross spending on culture and related services actually fell slightly compared with 2019–20. Councils spent £145 million (44%) less on 'theatres and public entertainment', which is likely to be connected to the cancellation of events such as local fairs, festivals, Christmas markets and firework displays. They also saw a £151 million (91%) fall in related sales, fees and charges. This significant change in the activities of councils would not be picked up from looking only at their net spending.

There were also falls in gross spending on library services (£37 million, 5.3%), museums and galleries (£17 million, 7.6%) and arts development and support (£17 million, 18.4%). These may reflect lower spending in periods when venues were closed to the public due to restrictions, especially if outsourced staff were furloughed, or to efforts by councils to make cuts and balance budgets. These cuts were not fully offset by falls in income.

In contrast, gross spending on sports and leisure facilities increased (by £76 million), while income from SFCs fell (by £228 million), more than doubling net expenditure. The former may reflect mitigation measures put in place to reduce transmission risk and/or support to outsourced service providers. The fall in SFCs income likely reflects declines in usage and revenues from council-owned leisure centres and swimming pools, for instance, and potentially a reduction in fees received from outsourced service providers.

For other service areas, the increase in net spending is driven mostly by an increase in gross spending, as councils faced greater demand, higher costs, or provided new services to residents. Gross expenditure on adult social care increased by £2.9 billion (12.8%). Some of this increase was from the largest areas of spending, and would have been expected anyway based on trends in recent years; for instance, spending on physical support for older people increased by £208 million (3.3%) and on learning disability support for 18- to 64-year-olds increased by £240 million (4.1%). More unusually, councils spent £443 million (28.2%) more on ‘commissioning, strategy and admin support’, far exceeding the growth we might have expected in the absence of the pandemic. Councils also reported significant additional costs associated with hospital discharge (£610 million), infection control payments to care providers (£867 million) and other payments to care providers (£227 million) – all new items included in councils’ outturns data in 2020–21, specifically to capture the impact of the COVID-19 pandemic.

The increase in spending on children’s social care since 2019–20 was driven by higher gross spending although, as discussed above, this did not increase by as much as we might have expected based on councils’ pre-COVID budgets and typical overspend. This could suggest that cost savings were found (as face-to-face visits were reduced), or reflect a slowdown in the underlying demand growth seen in recent years. However, many in the sector have concerns that the pressures of COVID are likely to have exacerbated existing family vulnerabilities, and may mean more children are in need. A 7% fall in referrals to children's social services in the year to 31 March 2021 was driven by a 31% fall in the number of referrals from schools, reflecting periods of school closures (Department for Education, 2021). There being fewer children entering the system may have reduced spending in the short term, but this may produce worse outcomes for children and families, and increase spending in the longer term.

Looking at other service areas:

- Nearly all of the increase in public health spending was driven by spending on Test and Trace and outbreak planning (£375 million) and 'other public health spend relating to COVID-19' (£233 million).
- The increase in housing spending was driven by an increase in spending on homelessness (£286 million of the £302 million increase in gross spending for the councils for which we have data). This was partially offset by a rise in 'other income', particularly for homelessness services, potentially reflecting additional housing benefit receipts to help cover costs.
- The increase in spending on central services reflects increased net spending in a range of areas, most notably council tax collection (£120 million), locally funded council tax discounts (£85 million), and emergency planning (£85 million).

Finally, it is worth noting that if SFC income had continued to grow at the average rate it has over the previous two years, total SFCs income would have been expected to grow by just over £0.4 billion. In reality, it fell by £1.6 billion. This suggests the COVID-19 pandemic may have reduced SFCs income by £2.1 billion, almost exactly matching the £2.1 billion estimated in councils' FMI returns. If this is true, this would imply that the 'overestimate' of overall increases in net spending in the FMI returns was driven by the gross spending rather than the income side of the budget.

Summary

This section has shown how the expected financial impacts of the COVID-19 pandemic on councils evolved during 2020–21 and has analysed outturns data. Local tax collections held up better than initially expected, while expected reductions in income from SFCs increased only modestly during the year, despite two additional lockdowns (in November 2020 and January to March 2021). Moreover, outturns data broadly align with the latest estimates reported by councils in special COVID-19 FMI returns.

In contrast, councils' forecasts of additional spending increased until near the end of the financial year – perhaps reflecting newly available funding and increased responsibilities. However, in contrast to the income side of councils' budgets, outturns data show a smaller increase in spending than one would have expected from councils' FMI returns. One cannot conclude that councils knowingly misled the government about the scale of the crisis, not least because FMI returns were designed to capture 'gross' spending pressures, rather than areas where spending was expected to be lower. But this overestimate nevertheless has implications for future funding for and data collection from local government.

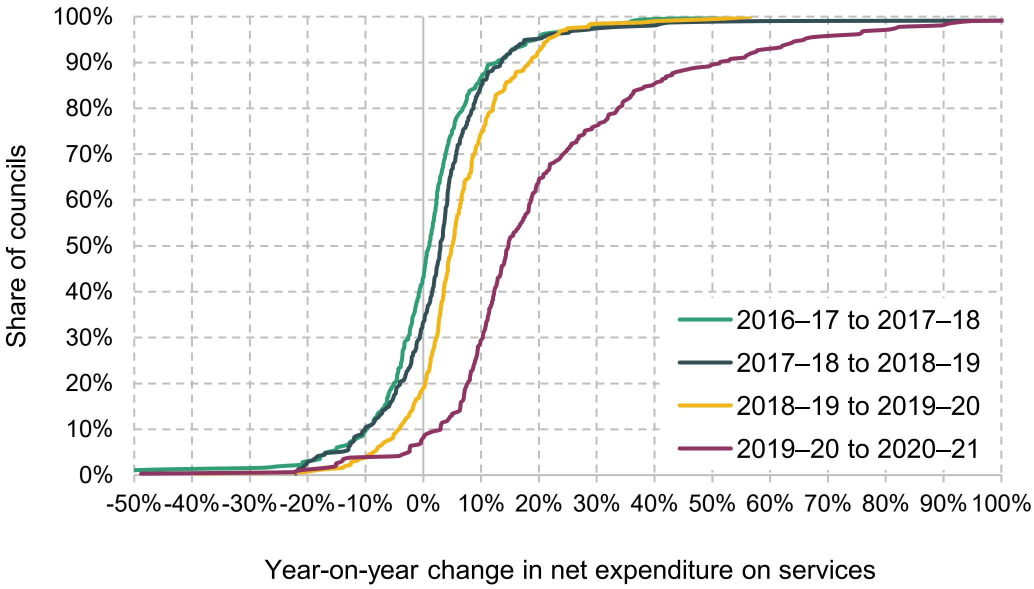
3. Local-level variation in financial impacts during 2020–21

Differences in local demographic and socio-economic characteristics, different experiences of the pandemic and local restrictions, and different degrees of dependence on at-risk income streams led analysis early in the pandemic to conclude that its financial impacts would likely differ in scale and nature across councils (Ogden and Phillips, 2020a). Councils' own forecasts from early Summer 2020 showed that they expected the same, with those councils most reliant on transport and leisure & culture SFCs income, including shire district councils, seeing the biggest impacts, measured as a percentage of budgets (Ogden and Phillips, 2020c).

Variation in changes in net service spending

With outturns data now available by council, we can examine the extent to which changes in spending and income in 2020–21 vary, and the factors linked to this variation. Figure 3.1 shows the distribution of the annual change in overall net spending on non-education services for three years before the pandemic (2017–18 to 2019–20) and the first year of the pandemic (2020–21). It shows the percentage of councils that saw their net spending increase by a given percentage or less. For example, it shows that in 2017–18, half of councils saw their spending increase by less than 1.0% while half saw their spending increase by more than 1.0%. As austerity was eased, the equivalent median change in spending was 3.0% in 2018–19 and 5.0% in 2019–20. In 2020–21, the median change jumped to 14.7%, and a fifth of councils reported an increase in spending of over a third. However, 8% of councils still reported a fall in their net service expenditure (compared with around one-in-five in the previous year and one-in-three in 2018–19).

Figure 3.1. Percentage of councils each year whose outturn net service spending changed by x% or less (as shown on horizontal axis)



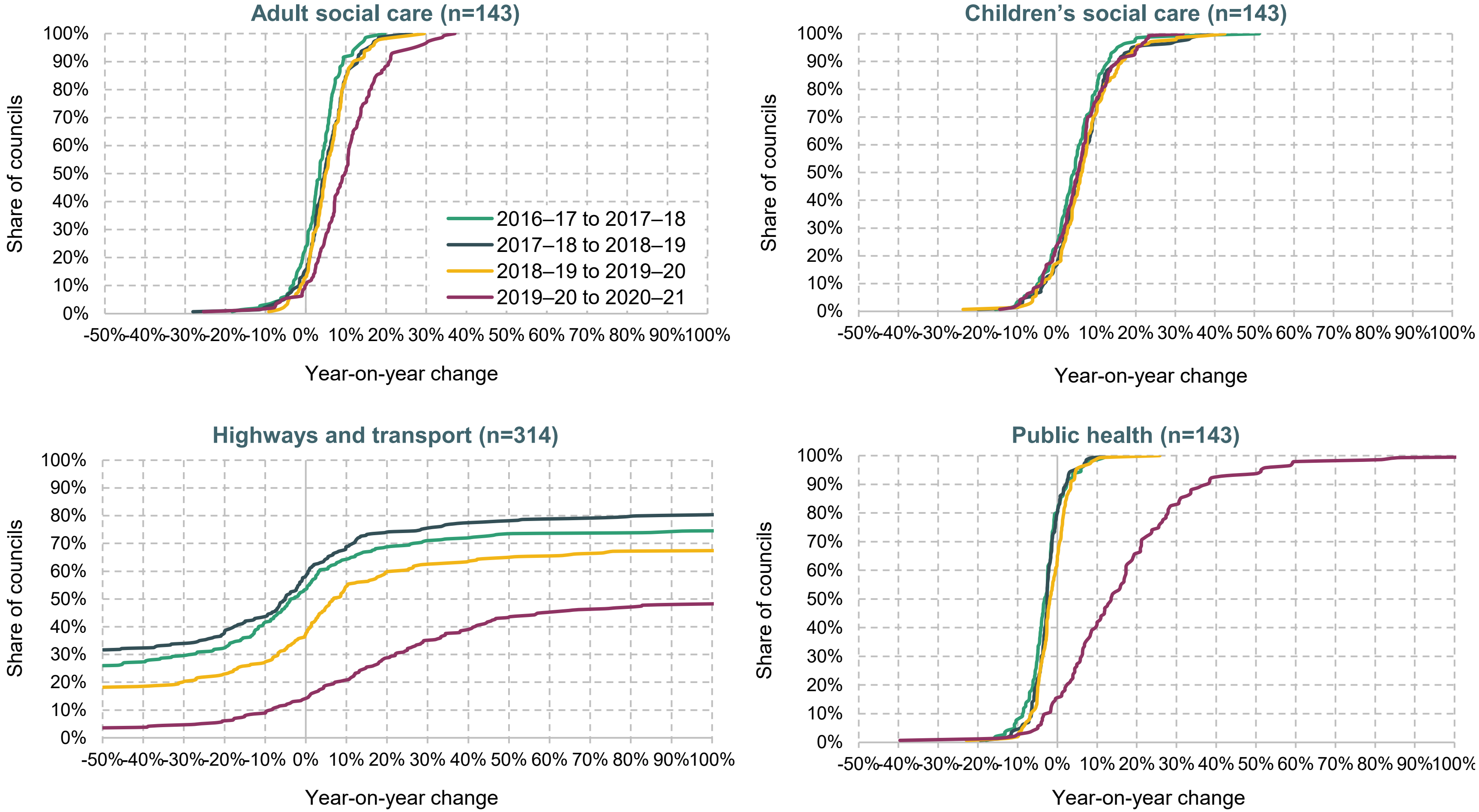
Note: Total net expenditure on services based on outturn data each year, excluding spending on education, police and fire services. Local authority boundaries are as of 2020. Excludes 24 authorities where outturn data for 2020 are missing, and the Isles of Scilly (n = 314).

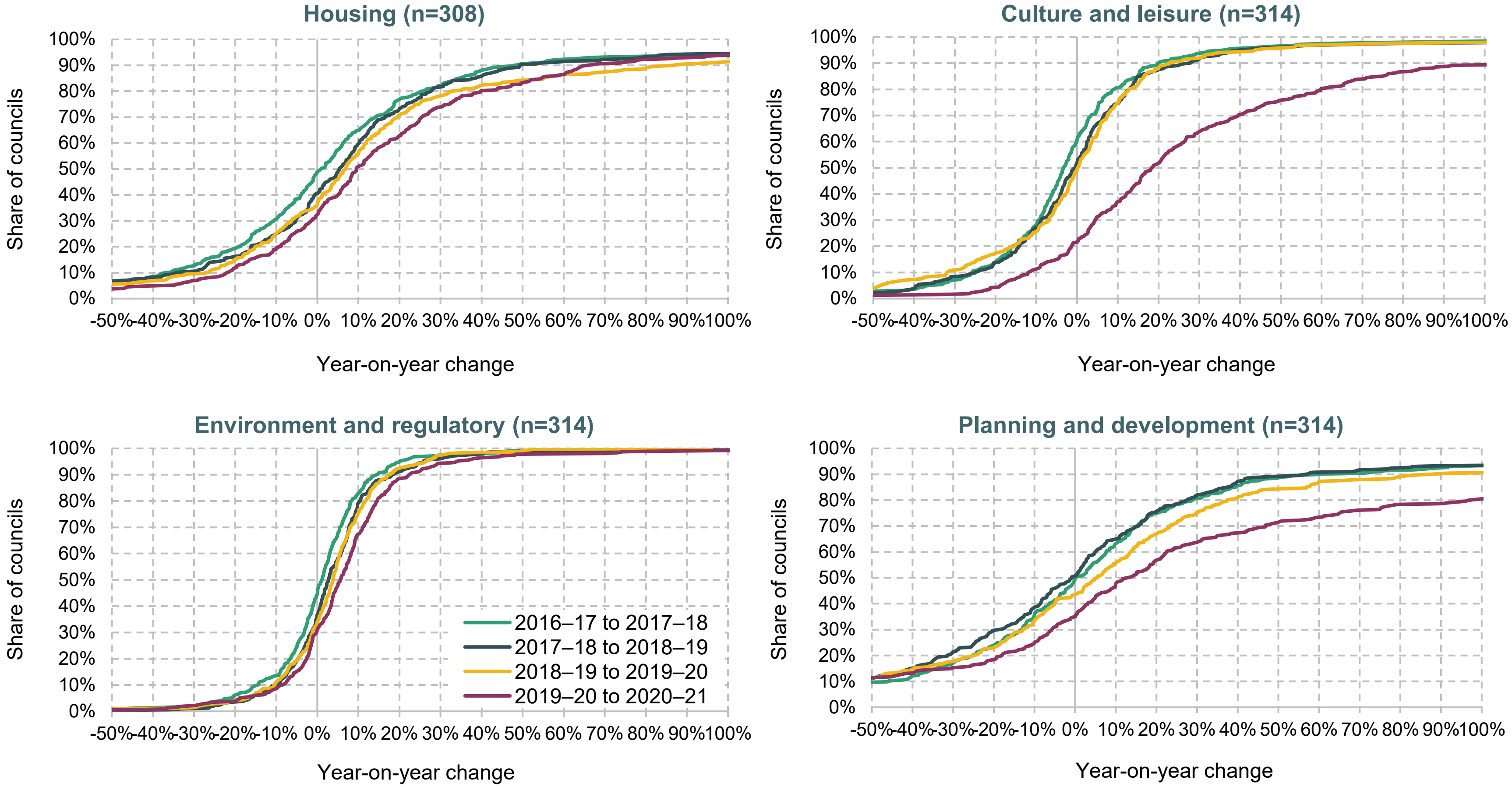
Figure 3.2 shows the same for net spending separately by service area. The further to the right the purple line is, the bigger the spending increase in 2020–21 was. Examining the panels of the figure shows that with the exception of children's social care services, the purple line is to the right of the other lines – and often significantly so – indicating that spending increases were higher right across the distribution last financial year than in the previous three years.

For example, with adult social care – the area with the biggest cash-terms increase in expenditure (see Table 2.3) – half of councils saw their net spending increase by 9.7% or more, and a quarter by 14.5% or more. However, one-in-ten saw their net spending fall, only slightly lower than in recent years, perhaps reflecting particularly large increases in transfers from the NHS to help pay for social care costs in their localities.

The services with the largest percentage increases in net spending right across the board are public health, highways and transport, culture and leisure, and planning and development services. These services also show the biggest variation across councils.

Figure 3.2. Percentage of councils each year whose outturn net service spending changed by x% or less, by service area





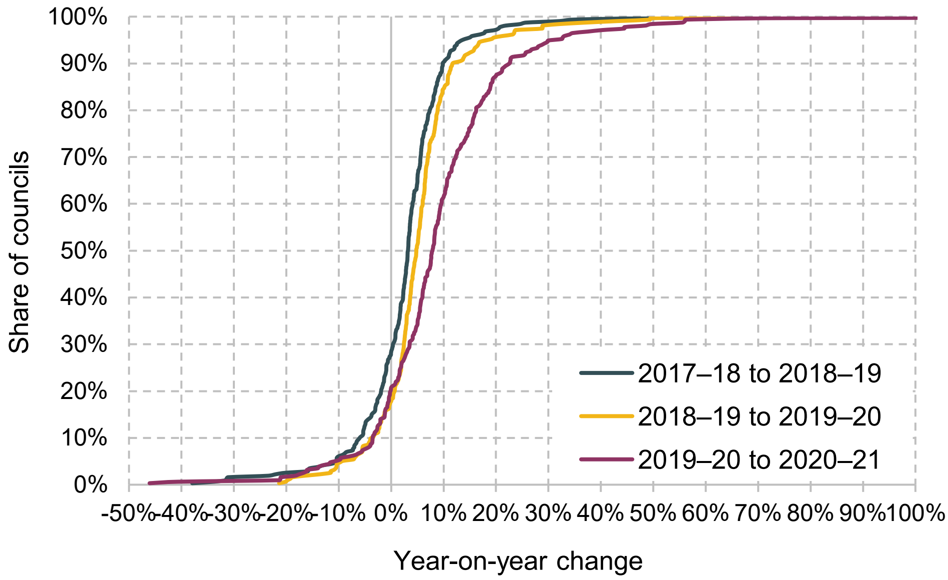
Note: Main authority types only. Excludes councils where outturn data for 2020–21 are unavailable, and the Isles of Scilly. For each service area, includes only councils with non-zero expenditure on that service area each year between 2016–17 and 2019–20. Proportional change is, for example, the change between 2019–20 and 2020–21, as a percentage of net spending in 2019–20; where the latter is negative, the denominator is set to be weakly positive.

In particular, looking at specific service areas:

- The median change in net spending on public health was 13.5% (versus –1.9% in 2019–20). Fewer than one-in-six saw their net spending on public health fall, compared with three-in-five in 2019–20.
- The median change in net spending on planning and development was 12.7%, compared with 5.3% in 2019–20. Nearly one-in-five councils saw their net spending increase by more than 100% or flip from being negative to positive, twice as many as the year before.
- The median change in spending on culture and leisure services was larger (18.3%) and followed several years of median changes close to zero. Only one-in-five councils saw their net spending fall, compared with nearly half of councils in 2019–20.
- Only a relatively small shift in the distribution of changes in net spending on housing services can be seen. The median change was 9.5% (versus 6.9% in 2019–20). Although 17% of councils saw their net spending on housing services increase by at least 50%, this was a very similar proportion to that in 2019–20.
- The distributions of year-on-year changes in spending on children's social care and on environment and regulatory services were similar to those seen in the last two years before the pandemic, with median changes of 5.3% and 5.6% respectively.
- The changes in net spending on highways and transport services are harder to interpret, as a very large proportion of gross expenditure is typically covered by income from sales, fees and charges, such that net spending is often negative. Only 14% of councils saw their net spending on highways and transport fall, compared with 37% in 2019–20 and 58% in 2018–19.

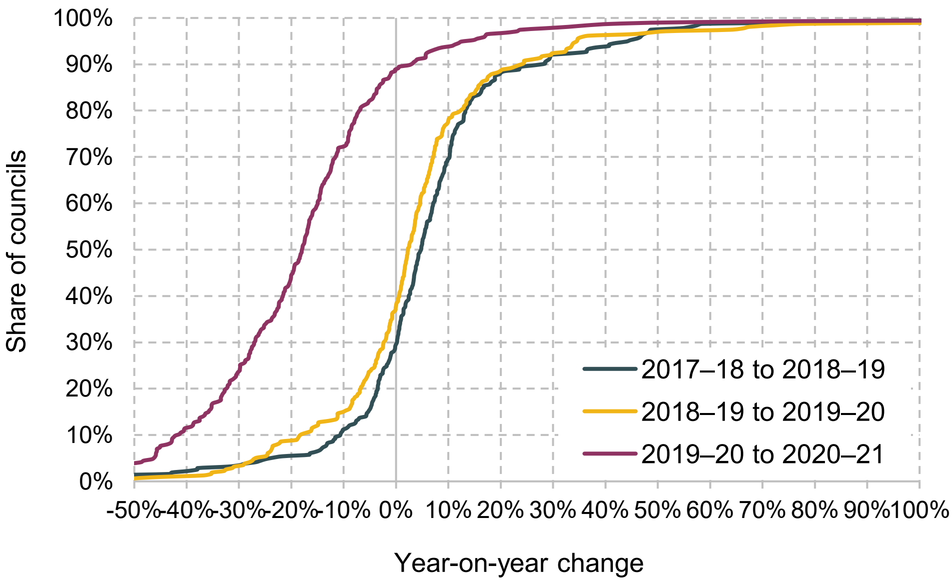
The median change in gross spending on non-education services rose from 4.8% in 2019–20 to 7.9% in 2020–21, as shown in Figure 3.3. Only 20% of councils saw their total gross spending fall year-on-year, very similar to the proportion in 2019–20 (18%).

Figure 3.3. Percentage of councils each year whose gross spending changed by x% or less



Note: Main authority types only. Total across all service areas, excluding education, police and fire services. Excludes councils where outturn data for 2020–21 are unavailable, and Isles of Scilly (n=314).

Figure 3.4. Percentage of councils each year whose SFCs income changed by x% or less



Note: Main authority types only. Total across all service areas, excluding education, police and fire services. Excludes councils where outturn data for 2020–21 are unavailable, and Isles of Scilly (n=314).

There was much greater variation across councils in their proportional losses of sales, fees and charges (SFCs) income than in their additional spending. As shown in Figure 3.4, nine-in-ten councils saw their total income from sales, fees and charges fall, with the median change being a fall of 18% (versus growth of 2.3% in 2019–20). Nearly one-in-five councils saw their SFCs income fall by more than a third year-on-year.

Were there systematic patterns in financial impacts across councils?

However, councils' reliance on SFCs income varies significantly across the country. Shire district councils (the lower tier of local government in shire county areas) typically provide services where a large share of gross expenditure is covered by income from sales, fees and charges, such as leisure centres and off-street parking. This means falls in this income source would translate into larger changes in net spending for these councils. In early ex ante work, we highlighted that these councils were typically more reliant, on average, on SFCs which were expected to be particularly vulnerable to the crisis (Ogden and Phillips, 2020a and 2020b).

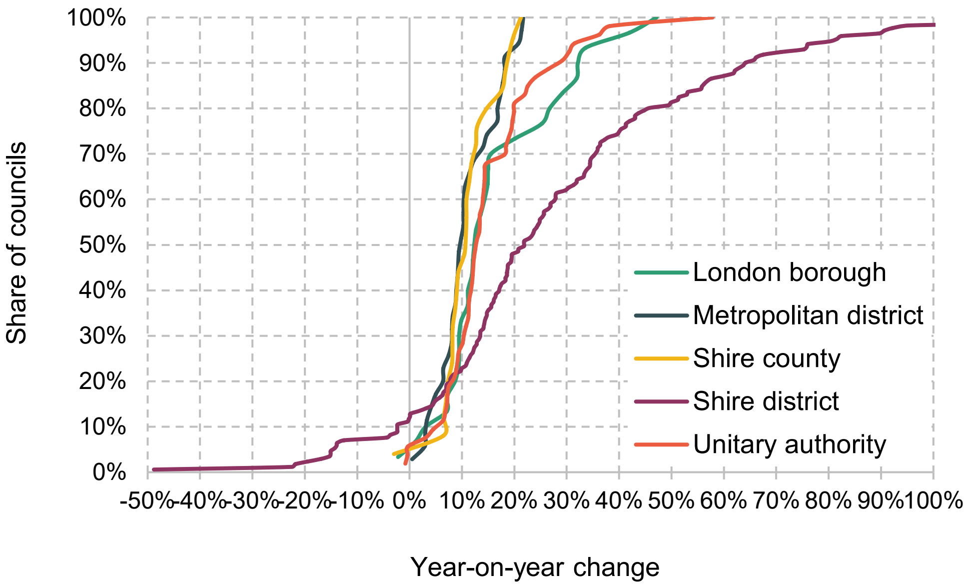
Our measure of a council's reliance on SFCs income[9] would have been a useful ex ante indicator of risk exposure provided that those less reliant on SFCs did not see proportional falls that were sufficiently large to offset their lower reliance. In fact, councils that were *less* reliant on SFCs income also typically saw smaller *proportional* falls in their income from SFCs. This means that councils that were known ex ante to be more reliant on SFCs income also saw much larger year-on-year falls in this income source when expressed as a proportion of their total budgets, as shown in Appendix Figure A.2, and suggests that our ex ante measure was useful.

Driven by their greater reliance on SFCs, on average, shire district councils saw much larger proportional increases in their net service spending between 2019–20 and 2020–21 than other types of council. As shown in Figure 3.5, the median shire

[9] A council's total income from sales, fees and charges in 2019–20 (excluding those relating to education services) as a proportion of adjusted revenue expenditure in 2019–20. The latter is a measure of the council's total spending on services, and excludes education grants and commercial income.

district saw its net spending increase by 22% year-on-year, compared with less than 13% for all other types of council. There was also much greater variation in these proportional changes amongst shire districts than amongst other council types, partly driven by significant differences in the extent to which different shire districts rely on income from SFCs. In fact, one-in-ten shire districts saw their net spending fall by more than 2%, while close to another one-in-ten saw their net spending increase by at least two-thirds.

Figure 3.5. Percentage of councils each year whose net spending changed by x% or less between 2019–20 and 2020–21, by council type



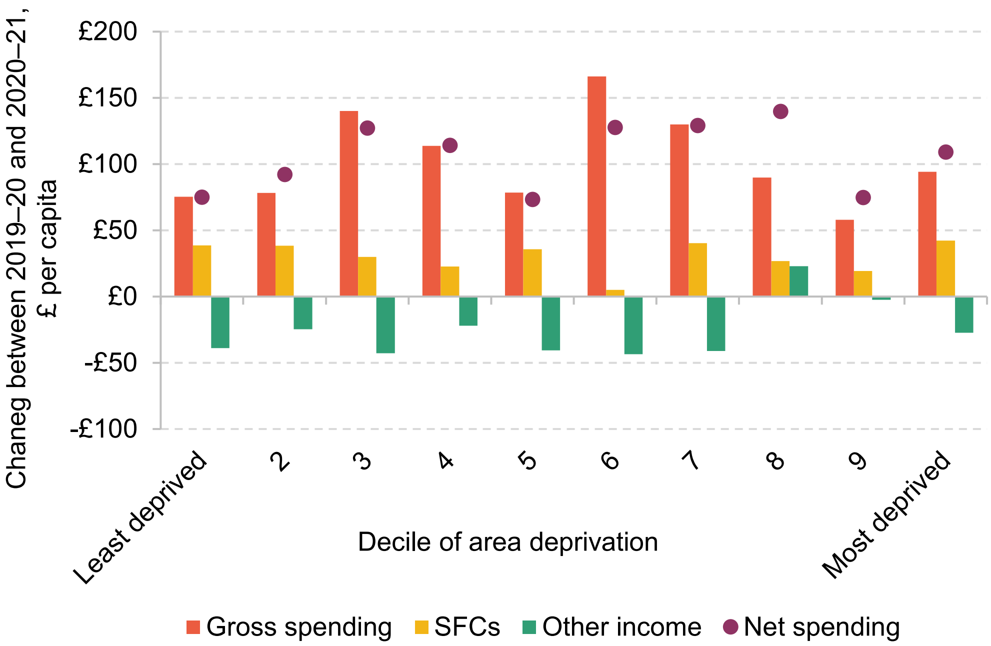
Note: Main authority types only. Total across all service areas, excluding education, police and fire services. Excludes councils where outturn data for 2020–21 are unavailable, and the Isles of Scilly. Sample size varies by council type.

While the impact on councils' in-year net spending has generally been greater as a proportion of net spending for shire districts, the changes have been more similar across council types when expressed in £ per capita terms, as shown in Appendix Figure A.3.

In early work, we expected that councils in less deprived areas – which generally rely more heavily on sales, fees and charges, and local tax revenues, to fund their spending – may expect to lose a greater proportion of their income than councils in more deprived areas, which rely more on grants from central government (Ogden and Phillips, 2020a). On the other hand, we expected councils in more deprived areas may face greater increases in demands for some of their services in future years, as their populations may be more vulnerable to the social and economic impacts of COVID-19 and repeated lockdowns. Some of these impacts will take time to manifest and feed through to councils' spending, so it is still too early to judge whether these patterns will be observed in the longer term.

In fact, there is no clear pattern in changes in £ per capita net spending on non-education services between 2019–20 and 2020–21 by deciles of area deprivation. As shown in Figure 3.6, net spending increased by £75 per capita in the least deprived tenth of areas and by £109 in the most deprived tenth, but there is no obvious trend overall. This is not a result of offsetting changes in gross spending and losses of SFCs income; there is also no clear pattern to the differences in either of these components of net spending across deprivation deciles. The same is true if changes are expressed in proportional rather than per-capita terms.

Figure 3.6. Change in net spending on non-education services between 2019–20 and 2020–21, by decile of area deprivation, £ per capita



Note: Deprivation is at upper-tier local authority level, measured by the Index of Multiple Deprivation (IMD) 2019 average score. Excludes spending and income relating to education, police and fire services.

Source: Authors' calculations using MHCLG (2019 and 2020), DLUHC (2021c) and Office for National Statistics (2021).

Our early work also considered other characteristics of areas which might affect the impact of COVID on councils' spending, in particular: population density (as a measure of urbanity); the proportion of the population aged over 70; and region. There is no clear relationship between any of these and the change in net spending, gross spending or SFCs in £ per capita between 2019–20 and 2020–21, as shown in Appendix Figure A.4.[10] However, per-capita increases in gross spending and (as discussed above) falls in income from SFCs were positively correlated with the per-capita levels of these variables in 2019–20.

The graphs in Figure A.4 also highlight the need for caution in interpreting overall trends. For instance, net spending in £ per capita increased by £135 in London, compared with £79 in the North East, but this difference is almost entirely explained by councils in the North East netting off much more 'other income'. This may reflect different approaches to reporting, or genuine differences in transfers from the NHS to pay for Test and Trace and adult social care activity, but this is difficult to establish without much more detailed data and analysis.

Maps showing the absolute and proportional changes in per-capita measures of net spending, gross spending and income from SFCs between 2019–20 and 2020–21 are included in the appendix, although no clear geographical patterns emerge.

Councils facing particular difficulties

DLUHC has allowed those councils facing particular financial difficulties to borrow to help cover day-to-day spending via 'capitalisation directives'. In 2020–21, these councils were Croydon, Luton, Nottingham, Peterborough, Wirral, Eastbourne and Bexley. While specific local factors played a role in each case,[11] most of the councils requiring support shared one or more of the following features: low levels of reserves, high debt servicing costs, and high reliance on at-risk SFCs, commercial and investment income. These common factors were highlighted as

[10] Multivariate regressions also show no statistically significant relationships between either per-capita or proportional changes in net spending and these local area characteristics. Results available on request from the authors.

[11] See Ogden, Phillips and Siôn (2021) for discussion of specific factors affecting some of those councils.

potential risk factors in our risk and resilience dashboard (Ogden and Phillips, 2020b).

The outturn financial data also shed some light on the factors underlying the financial difficulties facing some of these councils. For example, only around half of Eastbourne's 85% fall in income from culture and leisure services, likely linked to COVID-19 public health restrictions, was offset by reduced gross expenditure. And there was a significant deterioration in the performance of its commercial activities, with its 'external trading accounts' moving from a net profit of £2.3 million in 2019–20 to a net loss of £2.8 million in 2020–21. When combined with only partial compensation for income losses, and Eastbourne's initial low levels of reserves, such factors may underlie its need for enhanced borrowing. Conversely, the Wirral saw a particularly large increase in net expenditure on adult social care services (up 37%). And Nottingham saw large falls in income for highways and transport (down 57%) and culture and leisure services (down 77%) – only very partially offset by lower gross expenditures – which, alongside relatively high levels of debt and losses resulting from the collapse of the council-owned Robin Hood Energy business, may be factors underlying its particular difficulties in 2020–21.

It is beyond the scope of this briefing note to explore the performance of each individual council's revenue and spending. But underneath the big-picture story of a more financially robust sector in 2020–21 than is often appreciated, these examples illustrate the picture for every council was not always so rosy.

4. Discussion and conclusion

This briefing note has looked back at the financial impact of the COVID-19 pandemic on councils in 2020–21 in order to learn lessons for current and future policy. Two findings are particularly important and striking.

First is that both councils' own estimates of the financial impact of COVID-19 and official financial outturns data suggest that there has been significant variation in the impact on councils' spending and income across the country. On the income side, this is not unexpected, given that the extent to which different councils rely on the income streams most affected (such as income from parking and from culture and leisure facilities) varies so massively. Nearly one-in-five councils saw their income from sales, fees and charges fall by more than a third year-on-year, and the proportional falls were, if anything, larger for councils that rely more on this income source. This explains the very large year-on-year increases in net spending for many shire district councils. On spending, one-in-five saw their gross spending fall compared with 2019–20, while another one-in-five saw it rise by more than 16%. These differences are not easily explained by local authority characteristics.

Second is that outturns data suggest that the COVID-19 pandemic prompted a significantly smaller increase in overall spending by councils than councils reported in their FMI returns. Net spending by councils on non-education services increased by £6.3 billion year-on-year, of which we estimate £4.1 billion would not have been expected on the basis of councils' pre-COVID budgets. Councils' own forecasts in April 2021 suggest an increase of £7.8 billion in net spending on these service lines as a result of COVID-19, after accounting for an estimated £1.0 billion increase in transfers from the NHS to cover adult social care costs. Although these figures are recorded on a different basis, differences in the recording of 'other income' or of capital expenditure do not seem to fully explain the discrepancy. Part of the explanation may be that survey returns were designed to capture 'gross' spending pressures, rather than areas where spending was expected to be lower.

The fact that outturns data suggest a smaller increase in spending than councils' previous estimates, as reported in their FMI returns, also suggests that the extra funding councils received in 2020–21 from the government is likely to have substantially exceeded the financial pressures faced overall – although not for all councils. These factors may have made the government less willing to provide additional funding to councils this year, despite forecast COVID-19 financial pressures (£5.4 billion) exceeding the funding made available so far (DLUHC and MHCLG, 2021b): the government may trust councils' forecasts less, and in any case may think councils could utilise 'surplus' funding from last year. Indeed, while the complexities of local government accounting and unfortunate errors and omissions in the information provided by councils in their finance outturns mean it is not possible to precisely quantify how councils' underlying reserves have changed, available data suggest a fairly substantial rise across the sector as a whole since the COVID-19 pandemic hit in March 2020.[12]

The government should not be overly relaxed about the financial outlook for local government though. The COVID-19 pandemic could cast a long shadow, increasing demand for a range of services, most notably adults' and children's social care services and public health services.[13] More generally, councils face a range of demand and cost pressures for their services,[14] which could be increased further if current elevated inflation and supply-side economic constraints continue. And while the underlying financial resilience of the local government sector as a whole is perhaps greater than typically appreciated, a number of councils have already faced acute financial difficulties, and more could in future.

[12] The total unallocated and other earmarked reserves of those general-purpose councils included in the financial outturns data released on 9 December 2021 increased from £19.5 billion to £29.3 billion between 1 April 2020 and 31 March 2021. However, part of this increase relates to funding provided in 2020–21 to address tax income losses that affect councils' main accounts in 2021–22 and beyond – such as funding for expanded business rates reliefs and for other shortfalls in business rates and council tax collections. To address this, DLUHC allowed councils to provide information on these 'exceptional' components of reserves. Excluding these elements of reserves from the figures still shows a large increase: from £18.3 billion to £24.9 billion. However, a close examination of the data suggests that while some councils may be including as 'exceptional' some items that should not really be defined so, many others are not reporting any 'exceptional' reserves at all. If one subtracts from total reported reserves as of 31 March 2021 all funding for expanded business rates reliefs reported by councils and our estimate of the business rates element of the local tax income guarantee, this estimate of underlying reserves increased from £18.3 billion to £21.4 billion.

[13] See section 3.2 of Ogden, Phillips and Spiliotis (2020).

[14] See Ogden, Phillips and Siôn (2021).

What lessons can be drawn about the usefulness of ex ante and rapidly available data in predicting and monitoring the effects of major shocks such as the pandemic?

Our view is that the indicators we compiled during Spring and early Summer 2020 were useful in identifying high-level patterns of risk and resilience to the COVID-19 pandemic – particularly those related to reliance on SFCs income, and levels of debt and financial reserves. But, at least in part because the pandemic had different economic impacts in different parts of the country (Davenport et al., 2020; Davenport, Ogden and Phillips, 2021), such indicators would be best complemented with evidence on which risks are actually crystallising, and how that varies across councils.

Therefore, despite it looking as though the information provided in the COVID-19 FMI returns overestimated the net effect of the pandemic on councils' finances, the government should still collect such information if a similar fast-moving crisis hits. However, in doing so, it should consider whether:

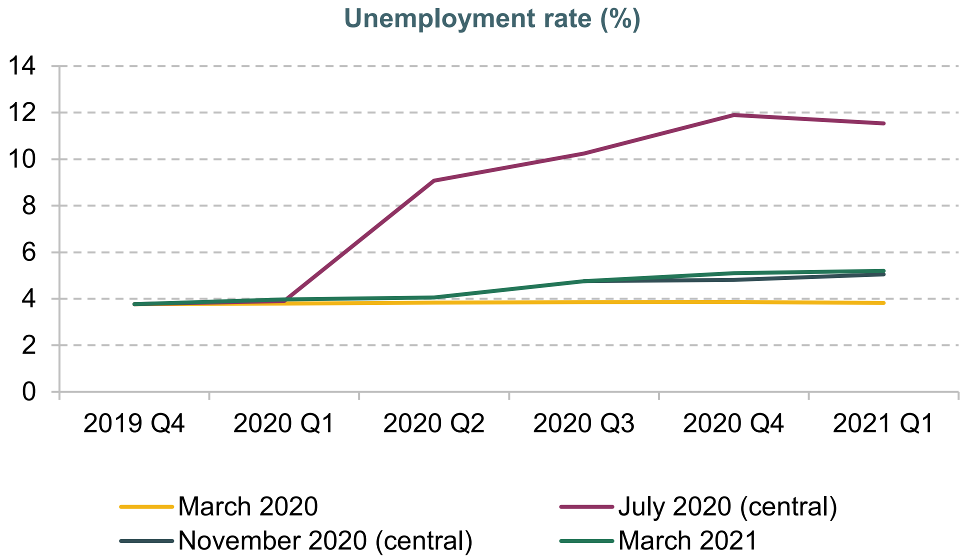
- the data captured and guidance provided could be made more comprehensive and clear: for example, asking for figures net of any reductions in spending also associated with the crisis (e.g. due to activities that could not take place);
- other data, such as those submitted in the quarterly revenue outturn returns, could be used to 'sense check' the data being received in FMI returns;
- it would be feasible to vet a proportion of the returns to assess their reasonableness, with the potential for penalties if returns are found to be unreasonable, bearing in mind the need to avoid placing unnecessary administrative burdens on councils during a crisis.

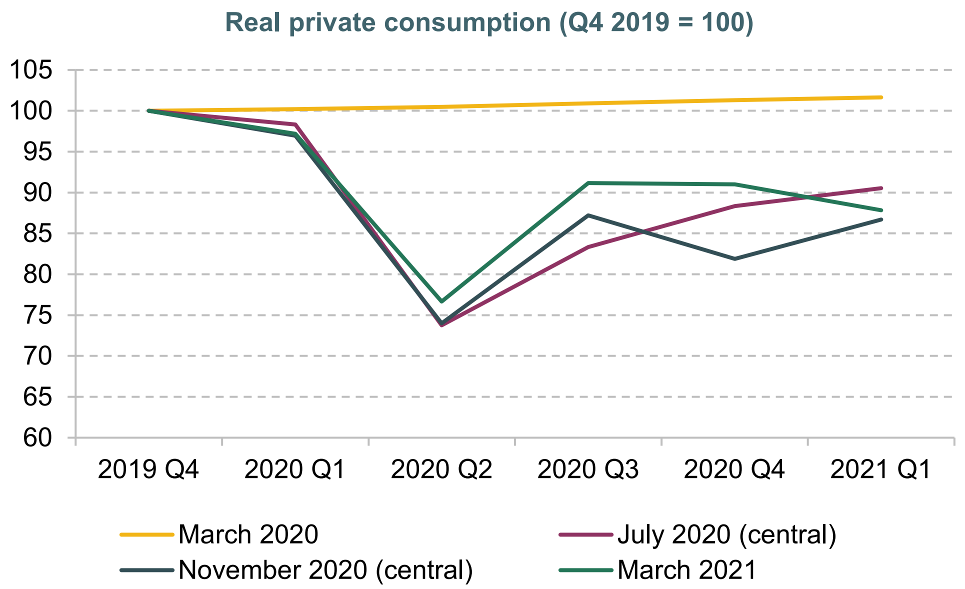
As we have said from early on in the pandemic (Phillips, 2020), rather than providing up-front funding based on councils' financial forecasts and somewhat rough formulae, the government could also have relaxed borrowing rules to allow councils to fund higher spending and offset income losses themselves in the short term. It could then have reimbursed councils at a later stage, once outturn data were available and subjected to enhanced scrutiny. Partially rather than fully compensating councils, as with the SFCs compensation scheme, would have meant councils still had a financial incentive to control their spending and income losses.

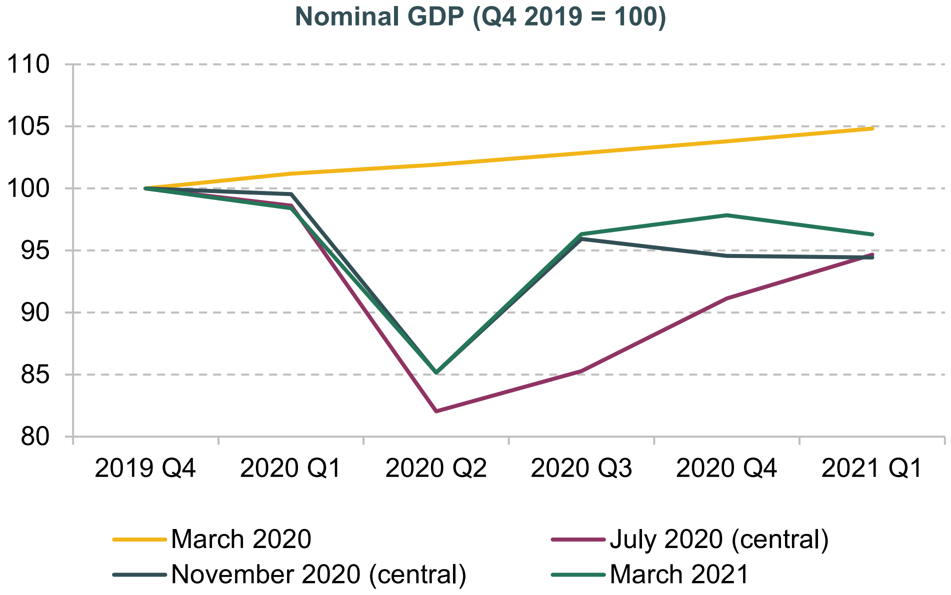
In a future crisis, the government may again conclude that up-front funding is necessary to provide certainty both to local government about funding and for its own management of the overall public finance situation. But the difficulty in ensuring reliable forecasts and estimates of financial impacts on the fly means it should consider whether alternative approaches may work better.

Appendix. Additional figures

Figure A.1. Evolution of OBR forecasts for the economy during 2020–21

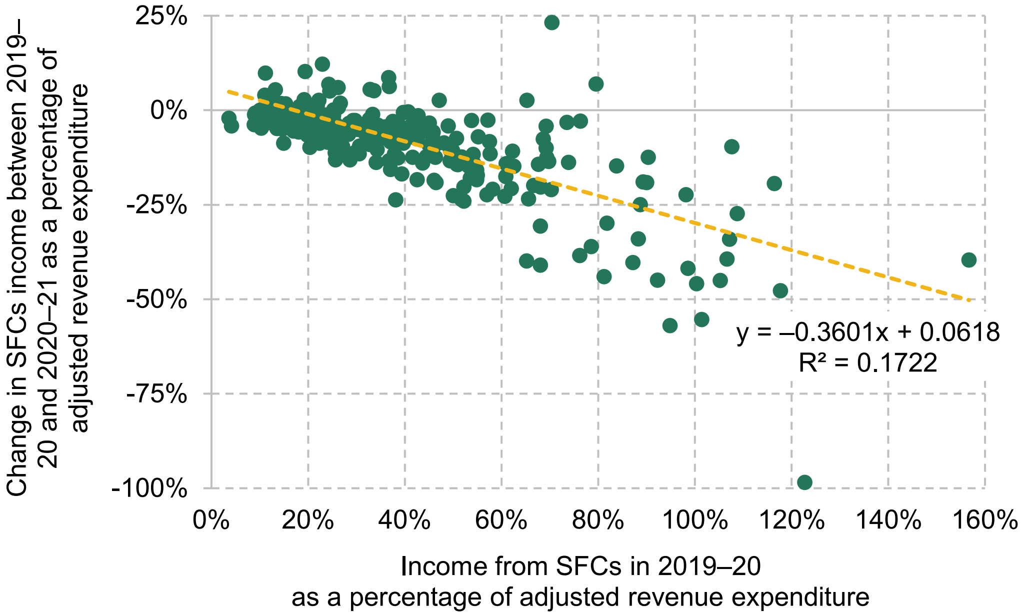






Source: Office for Budget Responsibility, 2020a, 2020b, 2020c, 2021.

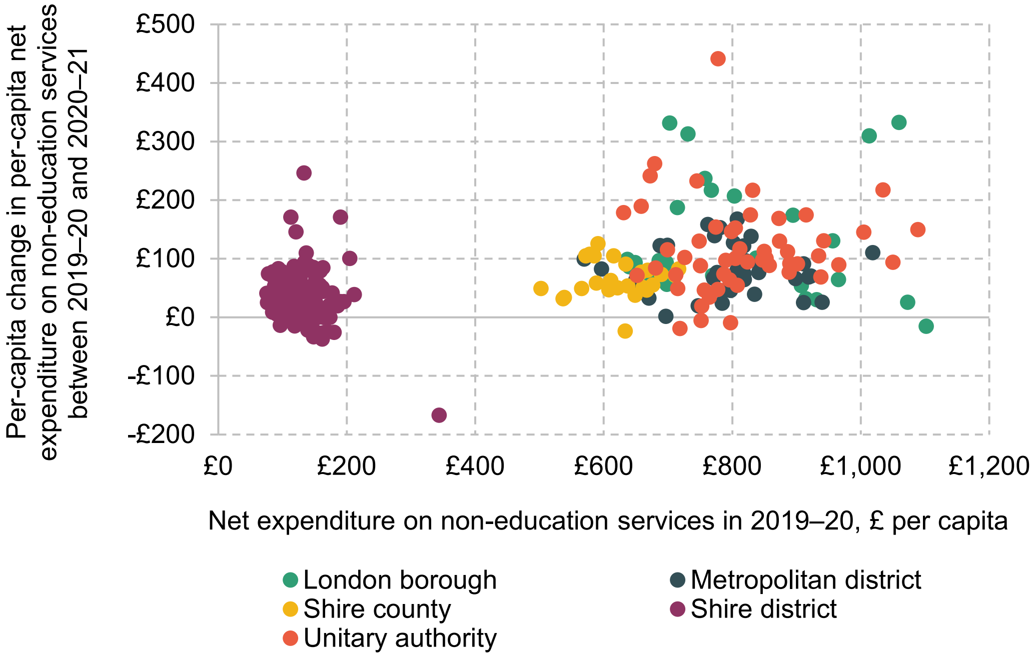
Figure A.2. Councils' reliance on SFCs income in 2019–20, and the year-on-year change in SFCs income as a percentage of adjusted revenue expenditure

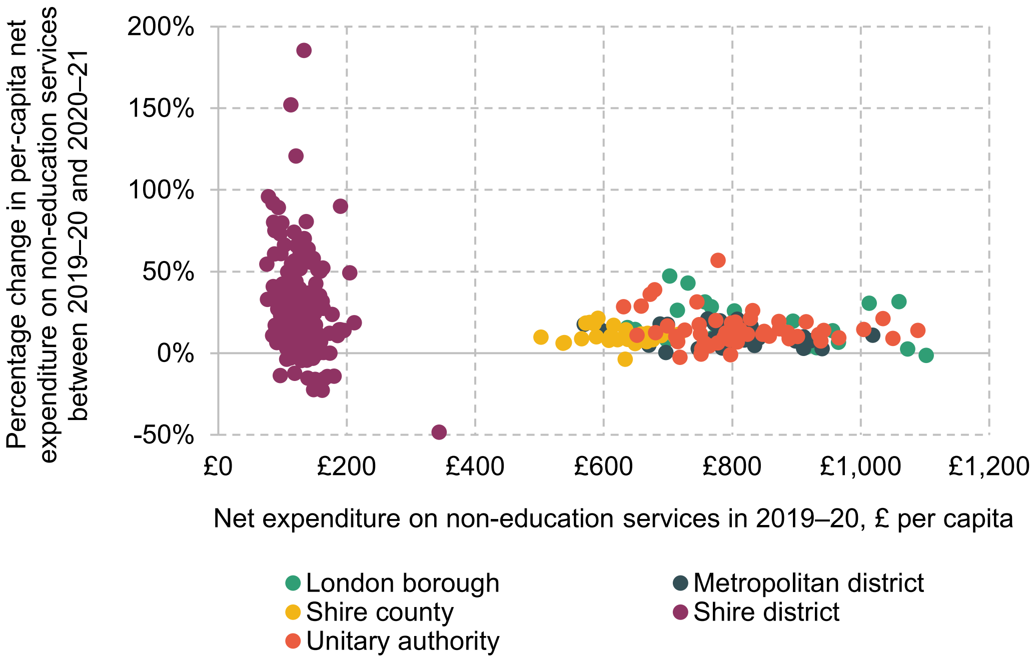


Note: Main authority types only. Total across all service areas, excluding education, police and fire services. Adjusted revenue expenditure is as described in footnote 7. Excludes councils where outturn data for 2020–21 are unavailable (n=315).

Source: Authors' calculations using MHCLG (2020) and DLUHC (2021c).

Figure A.3. Total net expenditure on non-education services in 2019–20 (£ per capita), and (a) per-capita change in 2020–21 and (b) percentage change in 2020–21, by council type

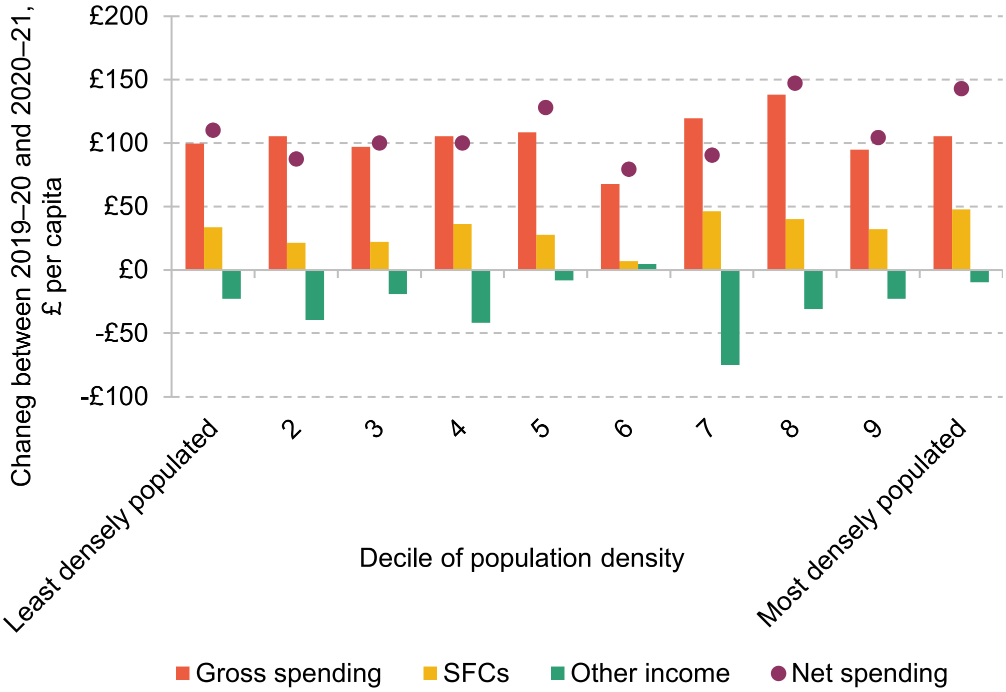


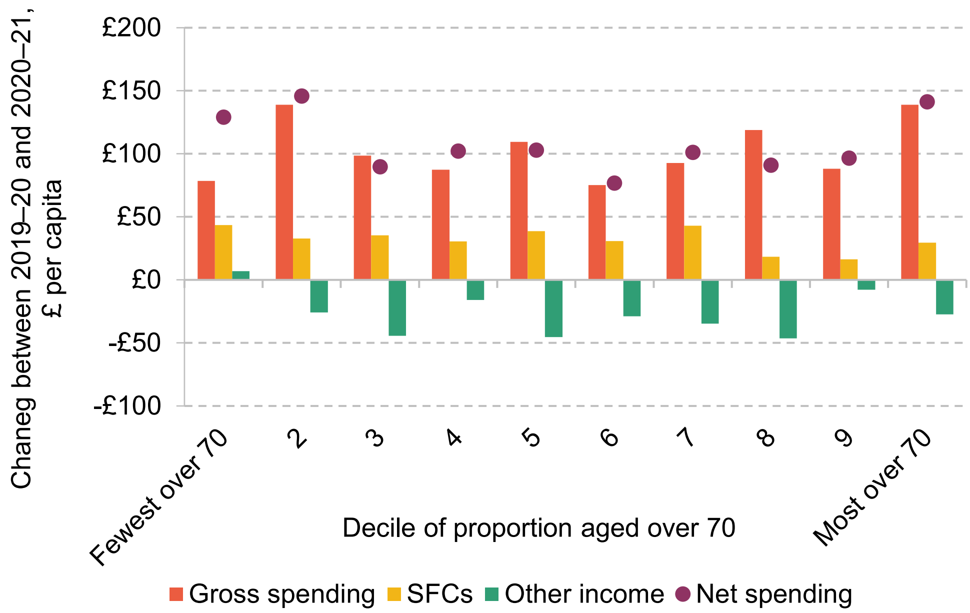


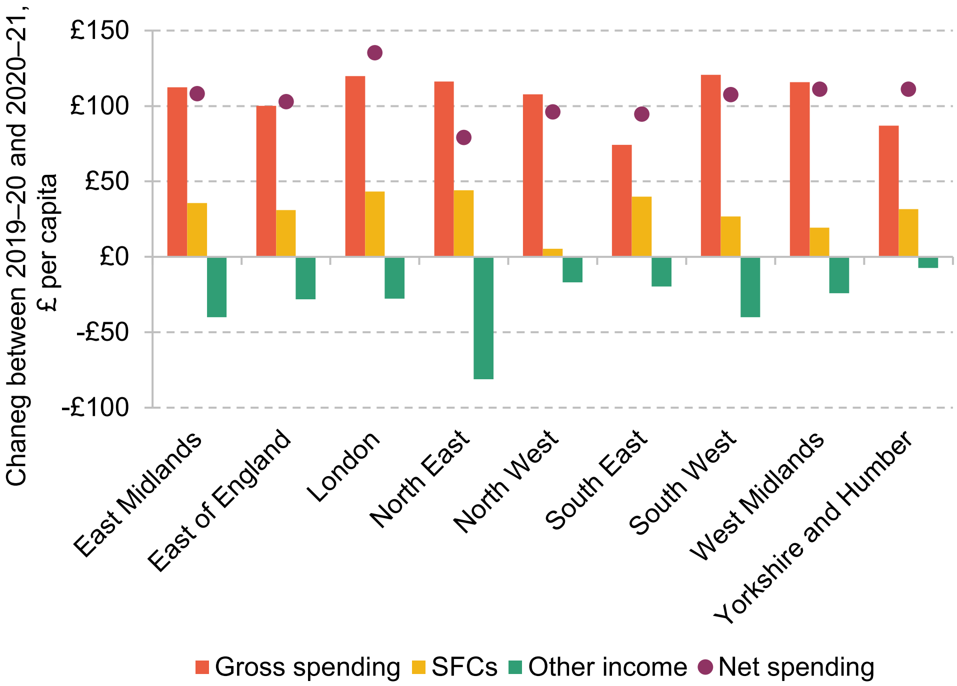
Note: Includes only councils where 2020 outturn data are available. Further excludes Isles of Scilly, City of London, and Oxford shire district.

Source: Authors' calculations using MHCLG (2020), DLUHC (2021c) and Office for National Statistics (2021).

Figure A.4. Change in net spending on non-education services between 2019–20 and 2020–21, £ per capita, by (a) decile of population density, (b) decile of the proportion of the population aged over 70 and (c) region







Note: Excludes spending and income relating to education, police and fire services.

Source: Authors' calculations using MHCLG (2020), DLUHC (2021c) and Office for National Statistics (2021).

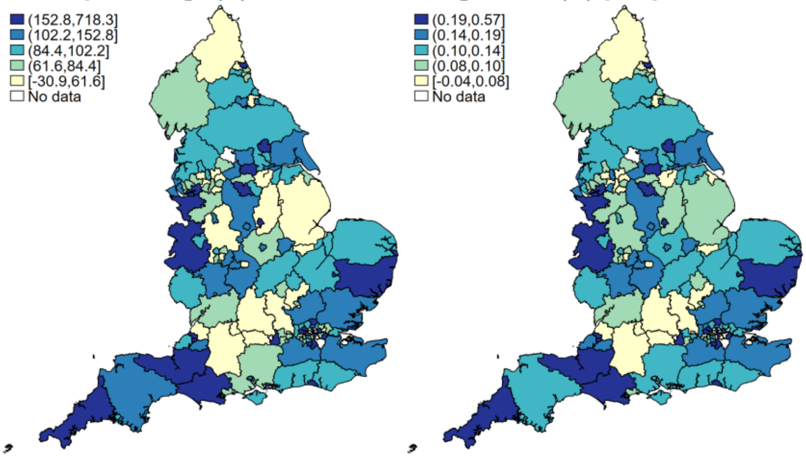
Note and source for Figure A.5

Note: All figures are on upper-tier local authority boundaries. Where outturn data for some shire district councils are not available, changes reflect average per-capita changes amongst other districts in the same shire area, as well as any change at the shire county level. For each map, areas are split into quintiles, where the fifth of areas with largest positive changes are shaded blue, and the fifth with the largest negative changes are coloured yellow. Note an increase in gross spending will have the same impact on net spending as a fall in SFCs income.

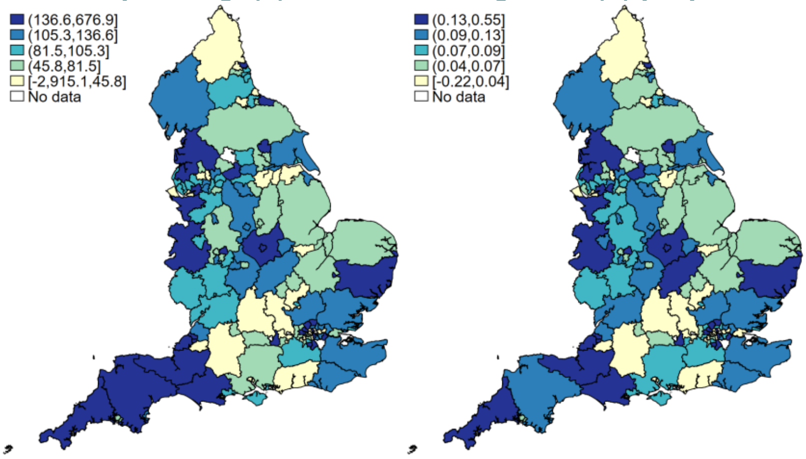
Source: MHCLG, 2020; DLUHC, 2021c; Office for National Statistics, 2021.

Figure A.5. Quintiles of change in per-capita net spending, gross spending and income from SFCs between 2019–20 and 2020–21, by upper-tier area

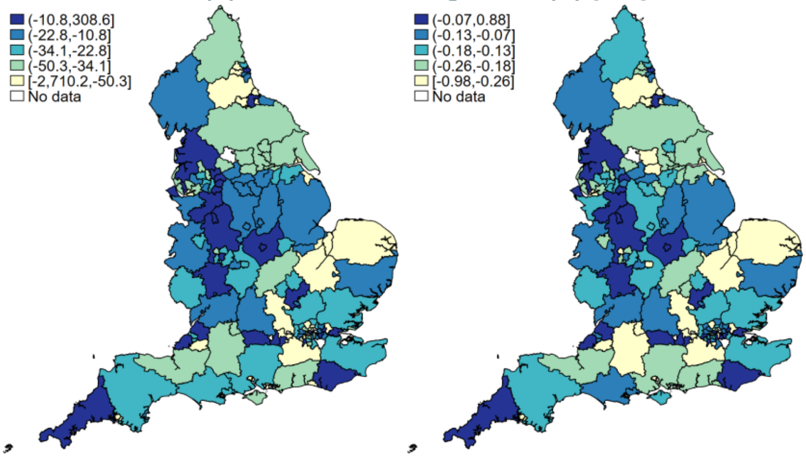
Net spending, (a) absolute change and (b) proportional change



Gross spending, (a) absolute change and (b) proportional change



SFCs income, (a) absolute change and (b) proportional change



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