

English local government funding: trends and challenges in 2019 and beyond

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Overview of local authority responsibilities

Our measure of revenue and spending excludes several service areas

- Education - not comparable across councils & across time
- Police, fire and rescue, and national park services – usually separate authorities

In this report, focus on *net current service expenditure on other services*

- Excludes capital expenditure and debt repayment
- Nets off spending funded by sales, fees and charges (SFCs)
- Add in portion of Better Care Fund allocated for social care

More than half of £49 billion in spending allocated to social care

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Net service expenditure by service area (£), 2019-20
[excluding education, police, fire and national park services]

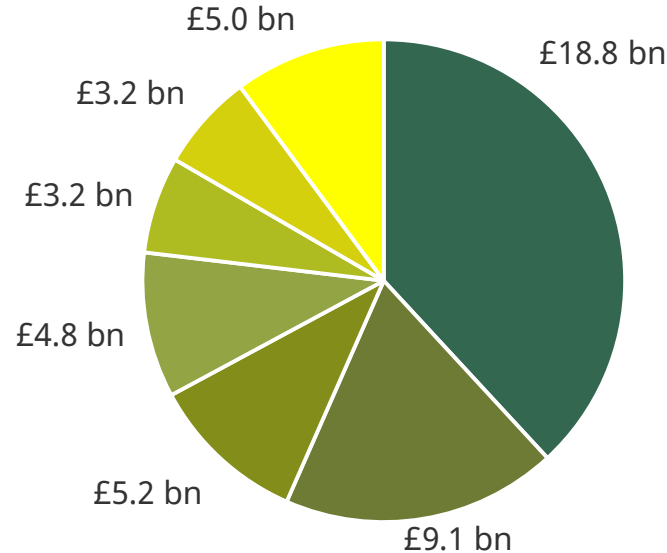
- Adult social care
- Children's social care



More than half of £49 billion in spending allocated to social care

Net service expenditure by service area (£), 2019-20
[excluding education, police, fire and national park services]

- Adult social care
- Children's social care
- Environment & regulation
- Transport
- Central
- Public Health
- Other (culture, housing, and planning)

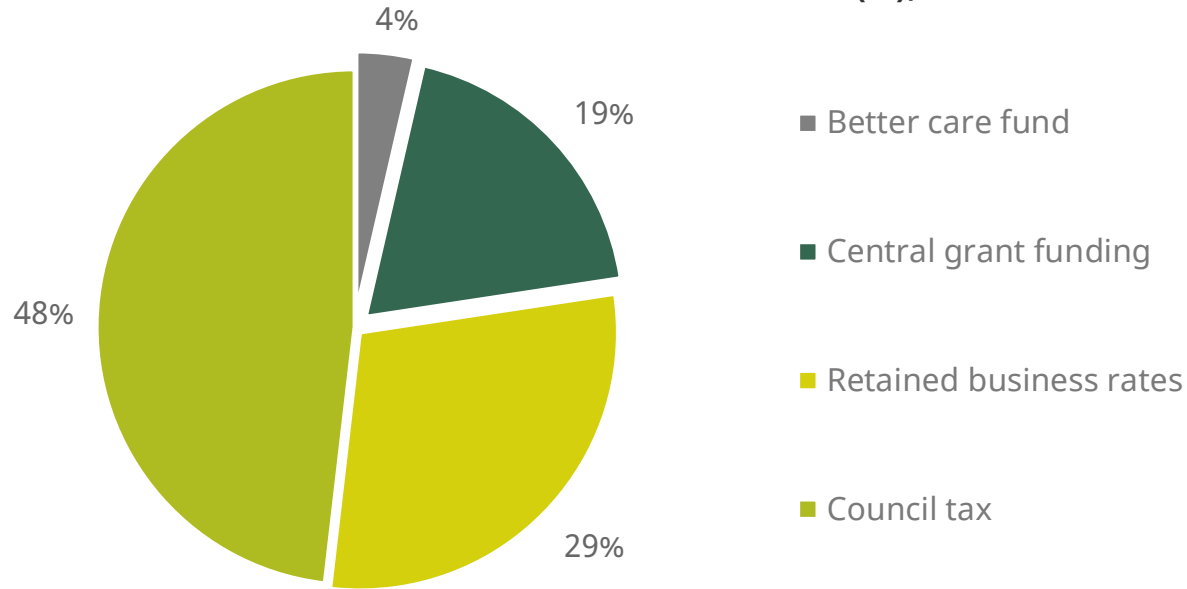


Budget of:
£49.4 billion
OR
£875 per person

Councils revenue comes from three sources

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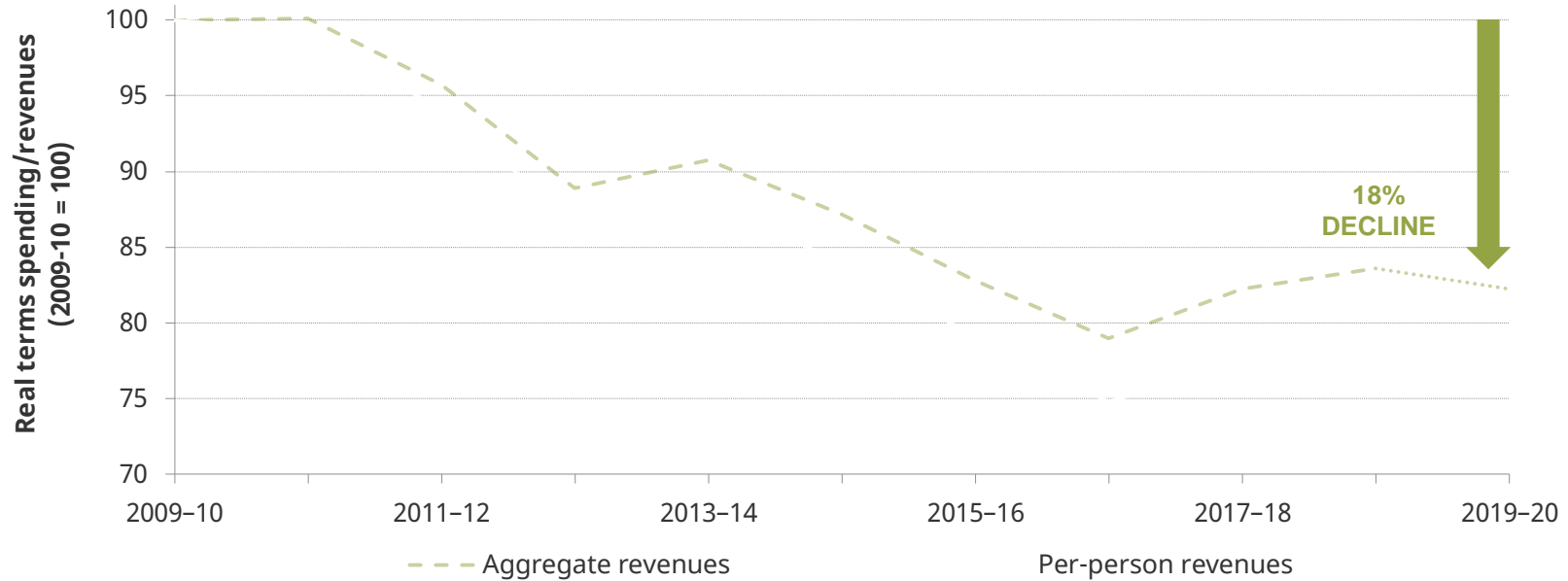
Contribution of different revenue sources (%), 2019-2020



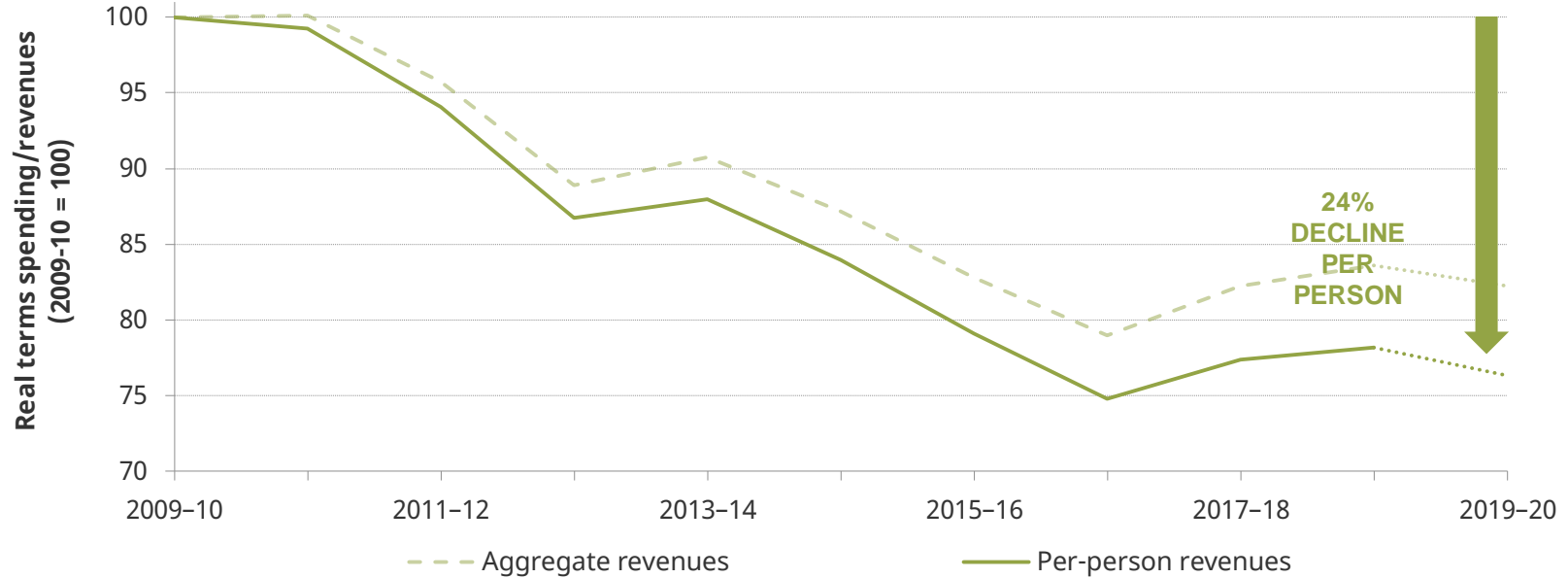
But, significant changes over past decade



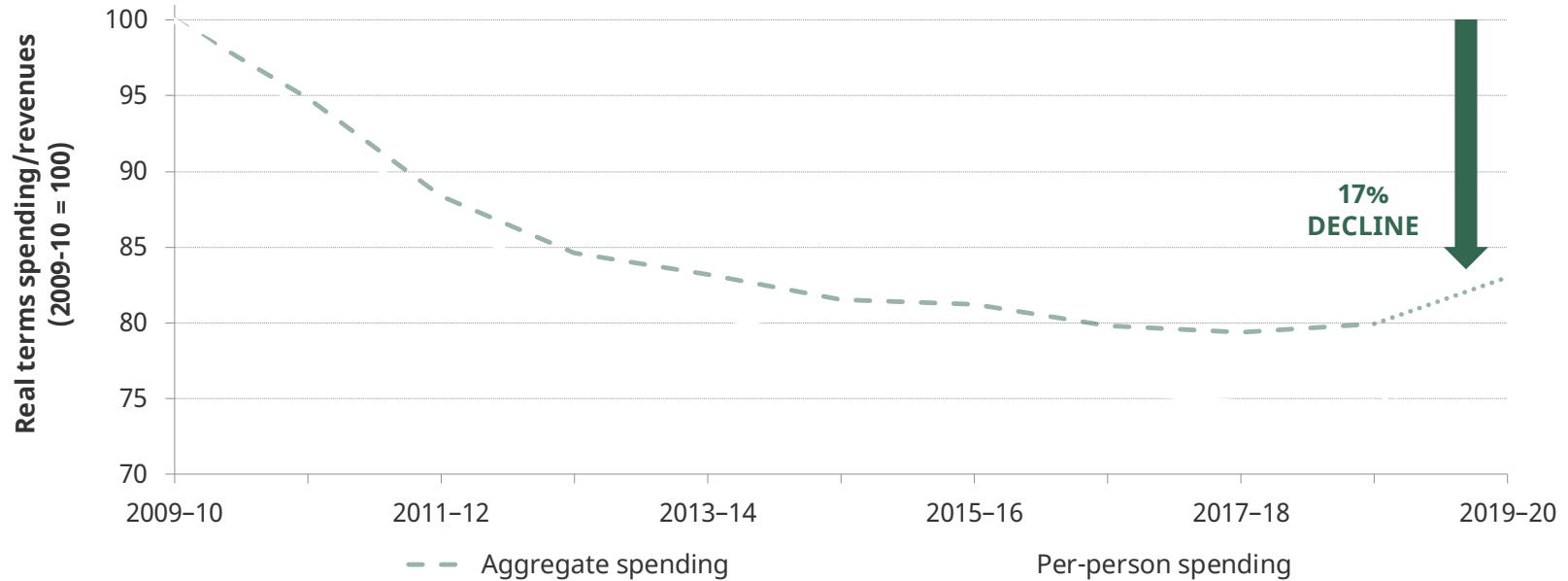
Cuts to funding have led to falls in revenues and spending per person of more than 20%



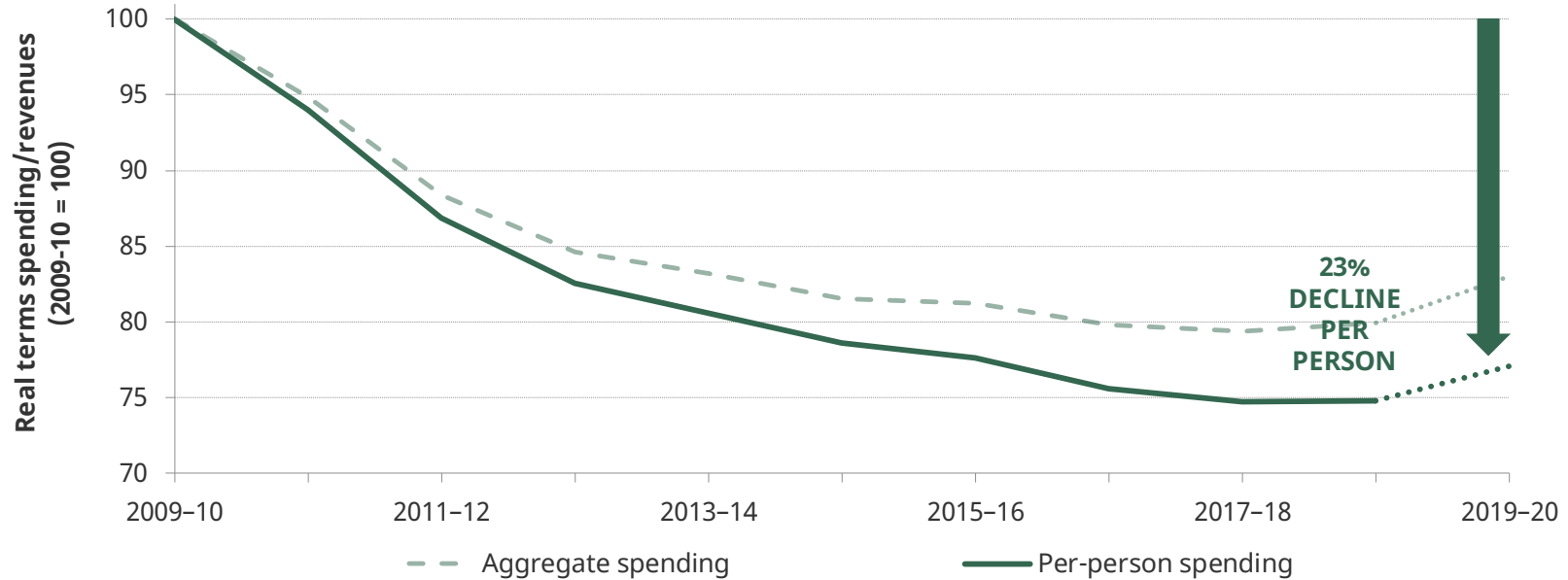
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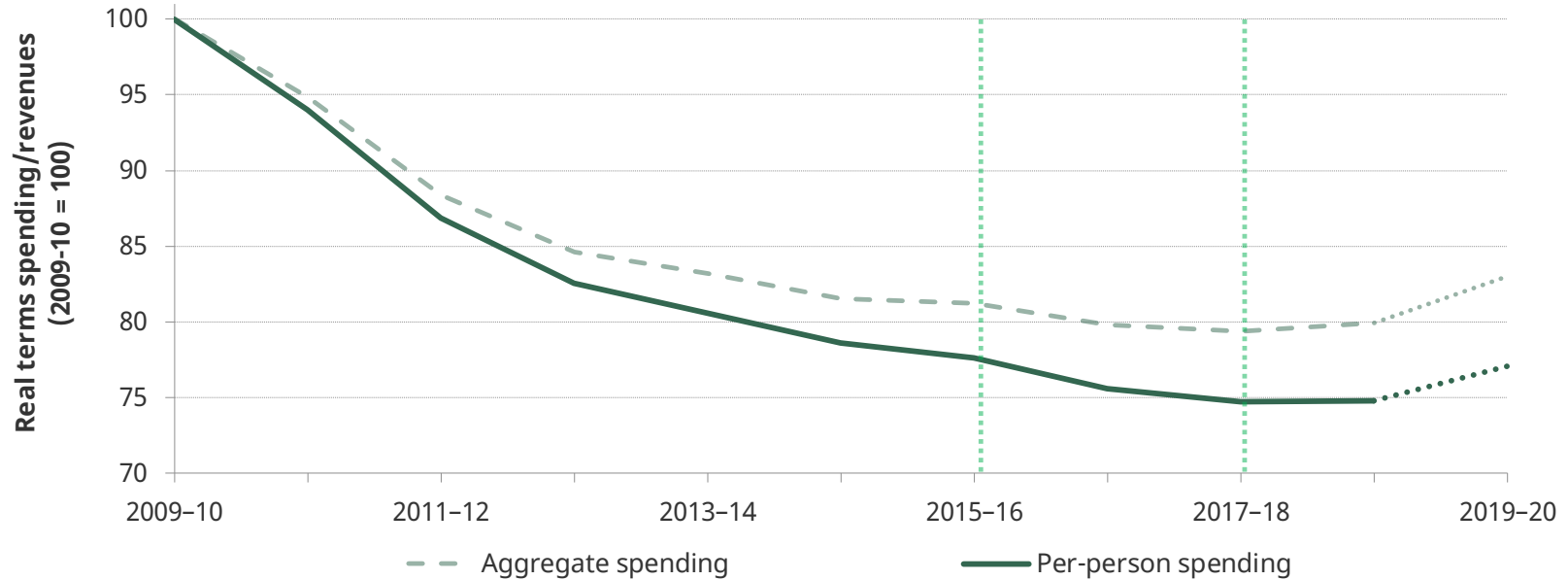
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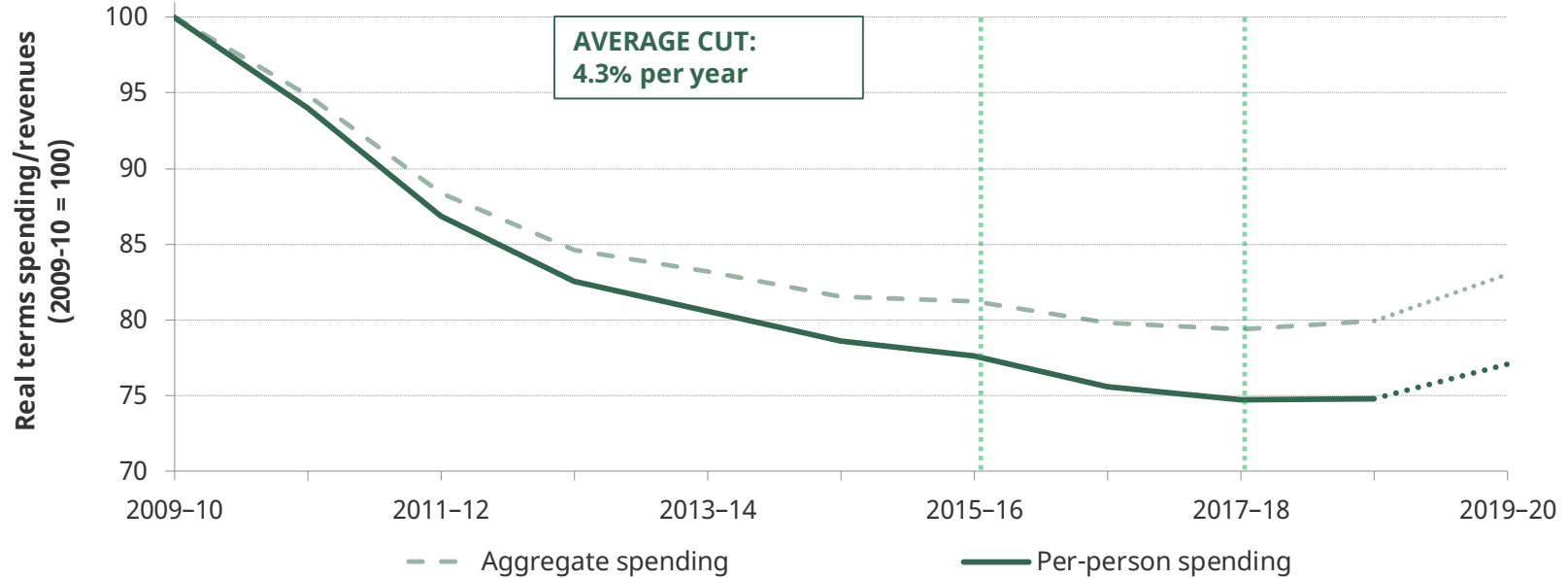
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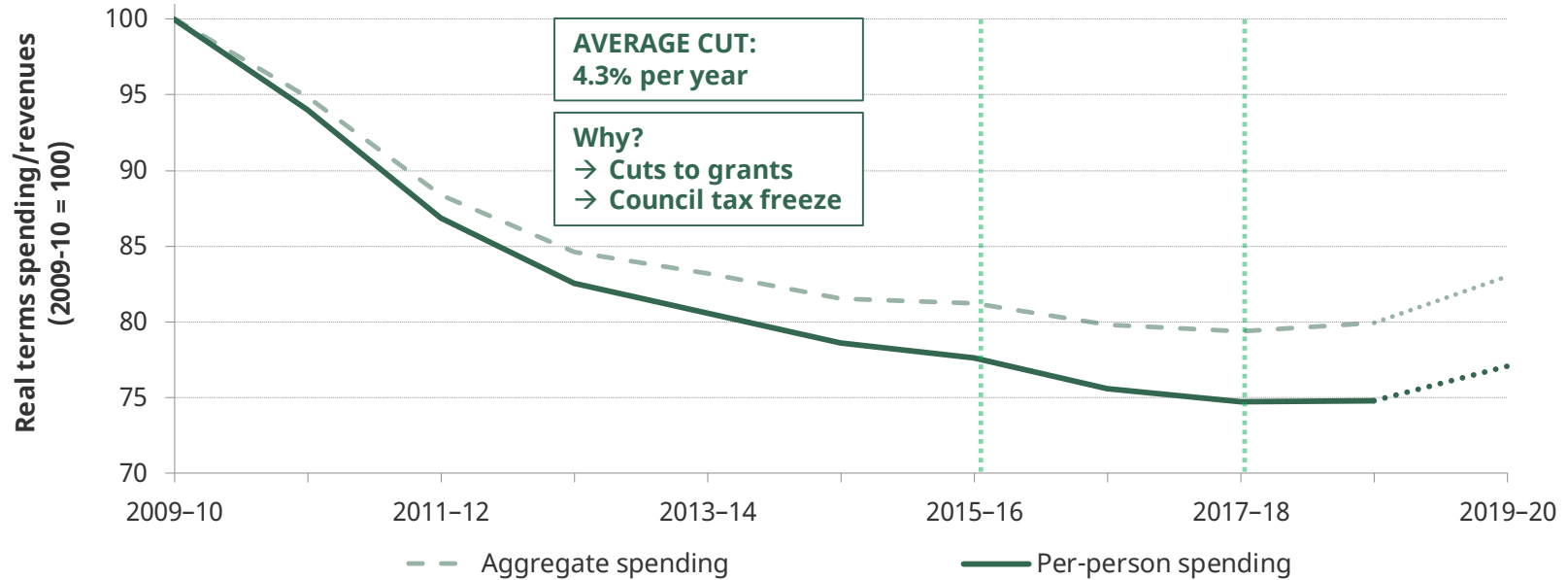
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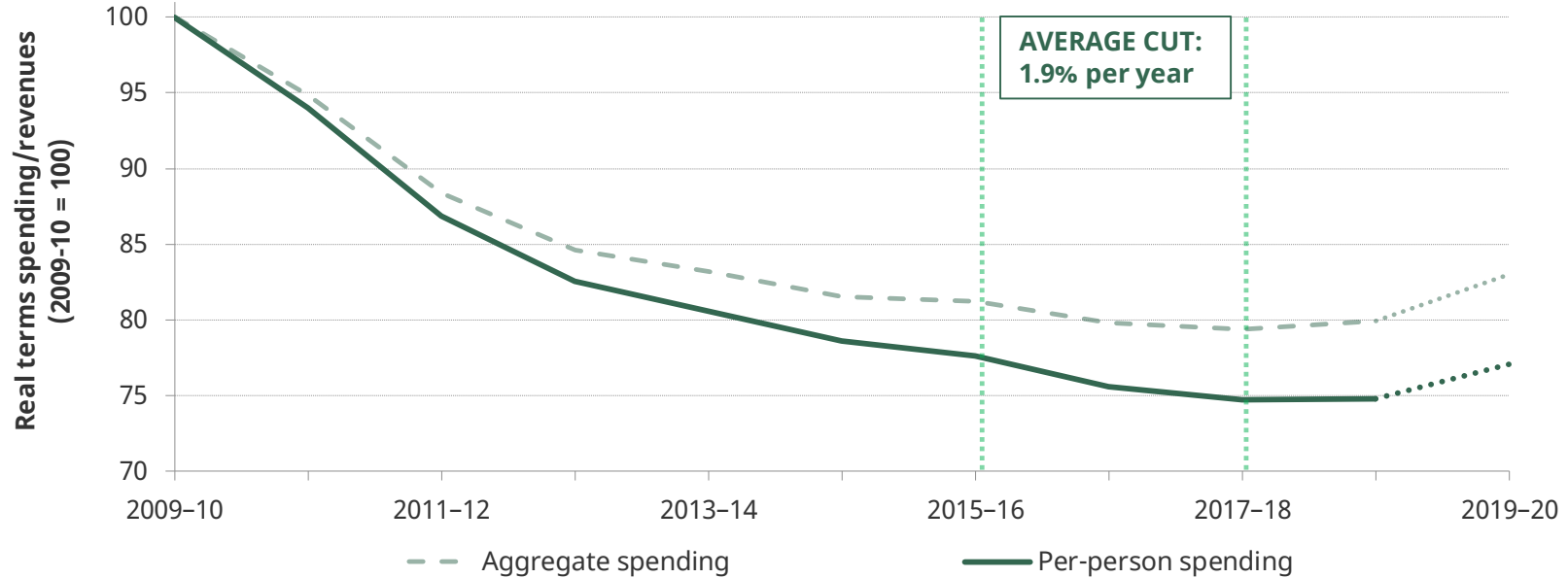
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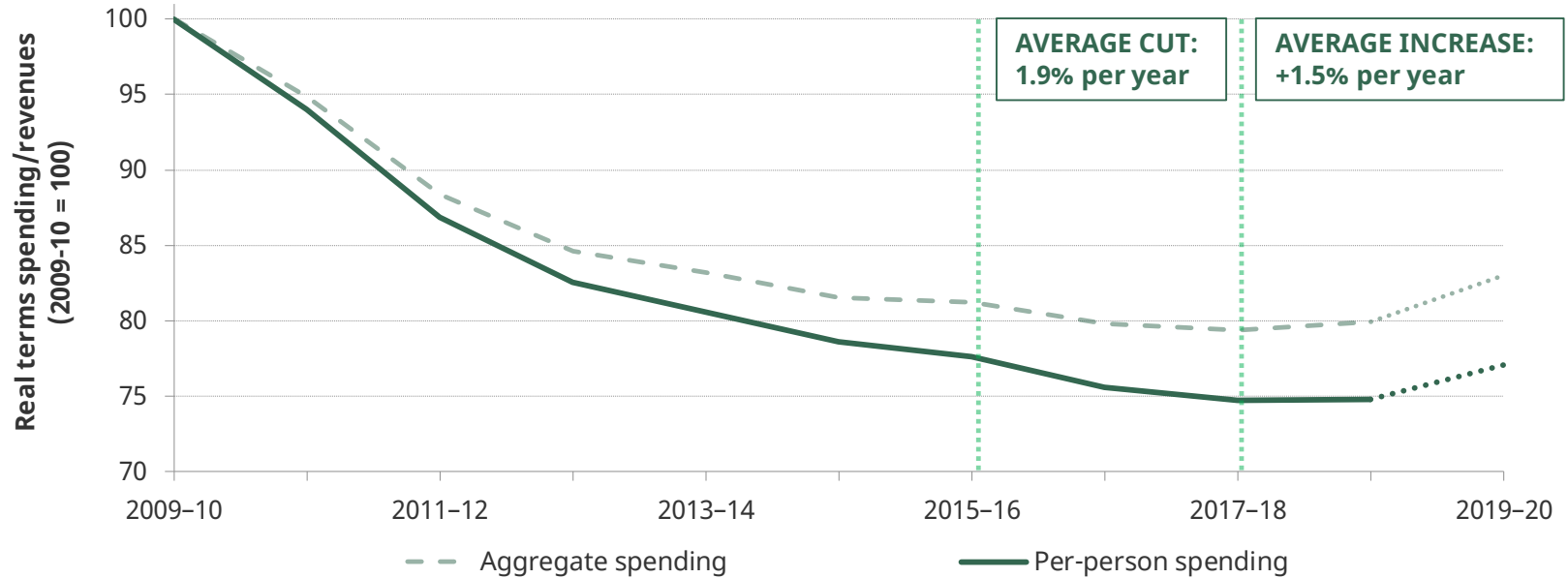
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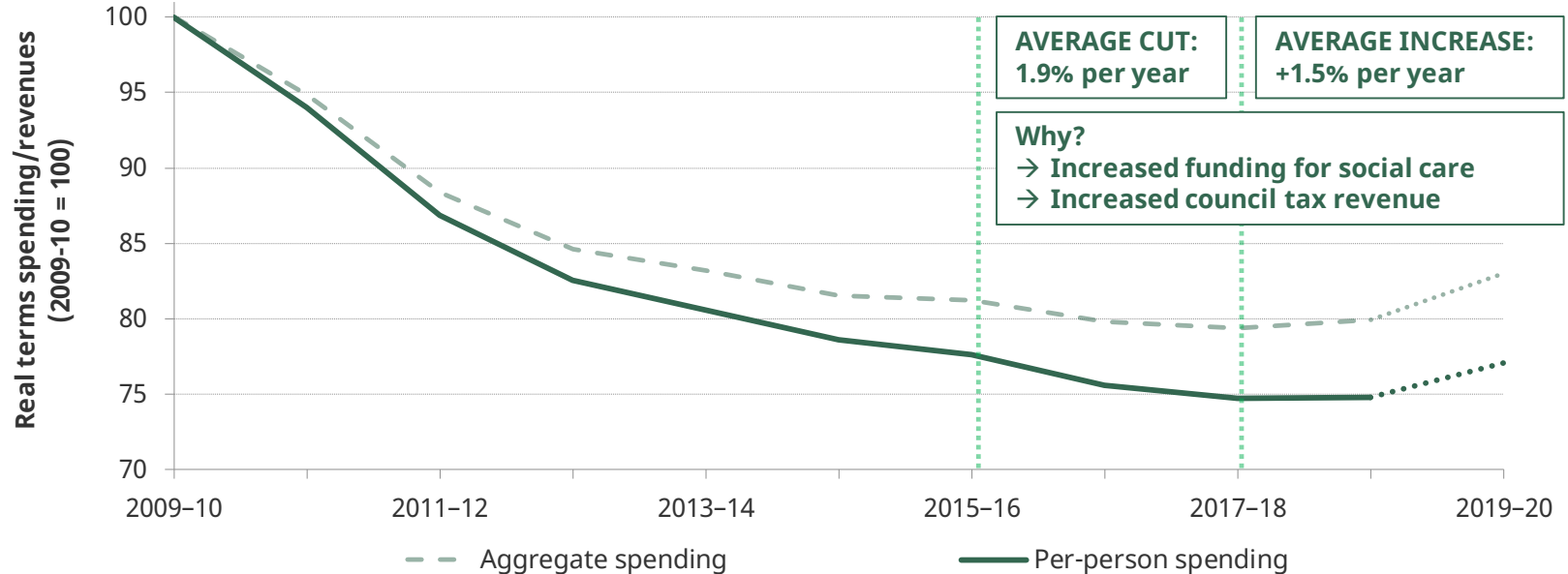
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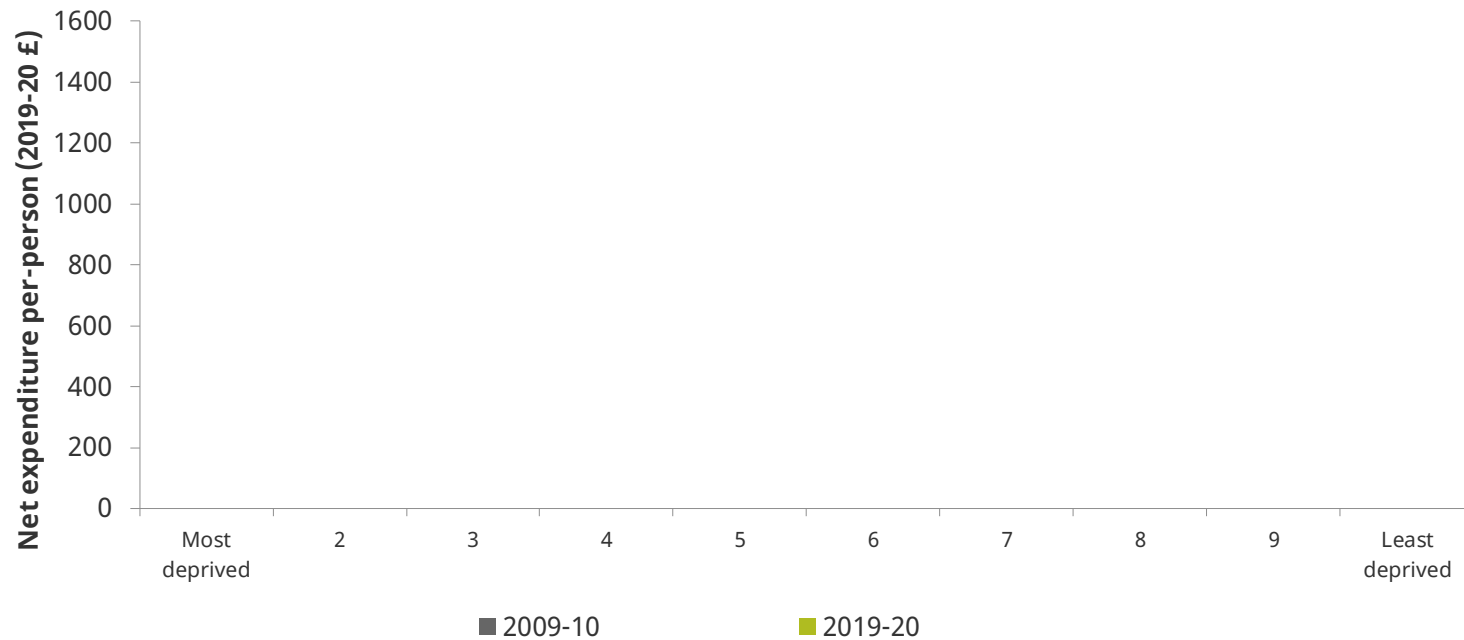
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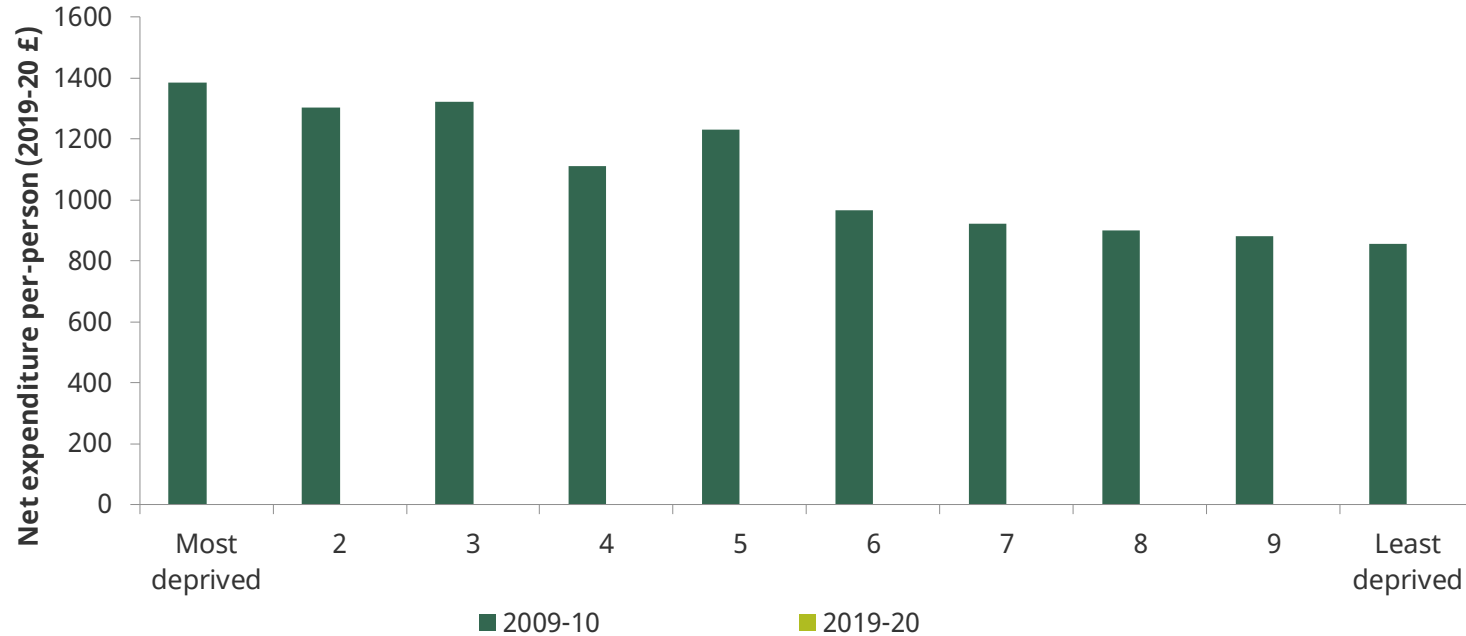
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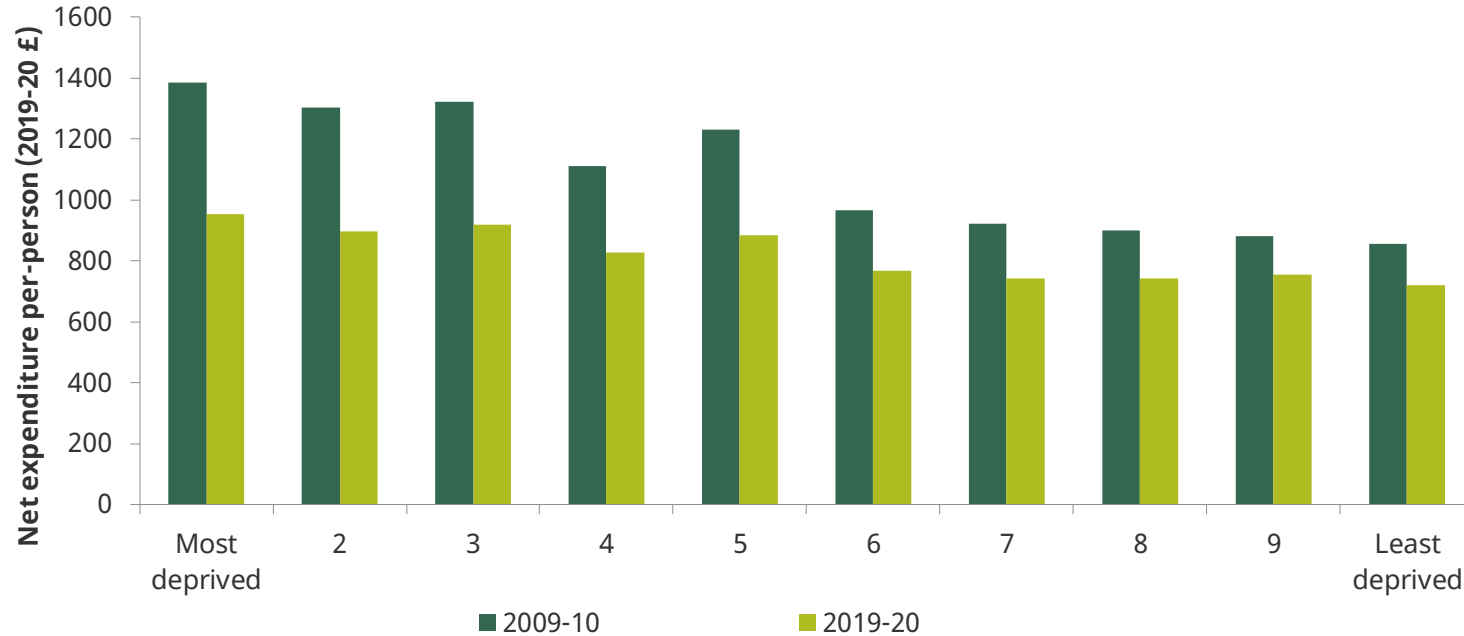
1. A less redistributive funding system



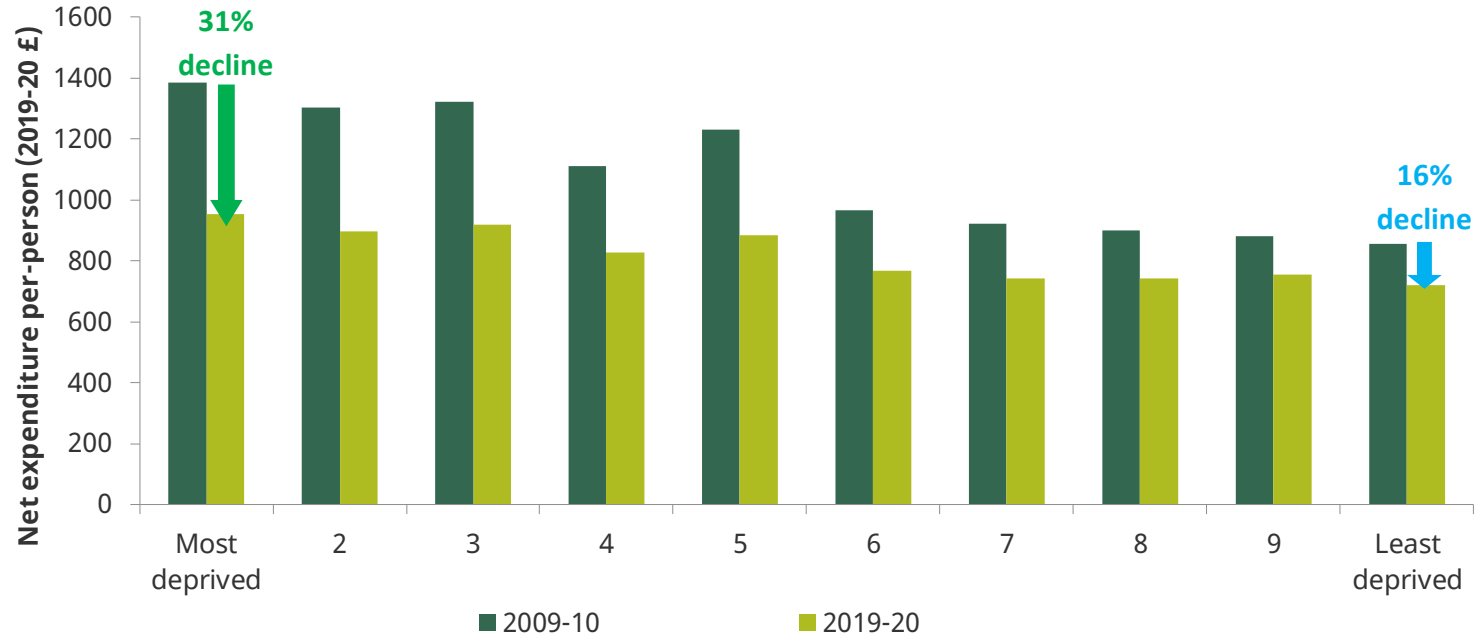
More deprived councils spend more



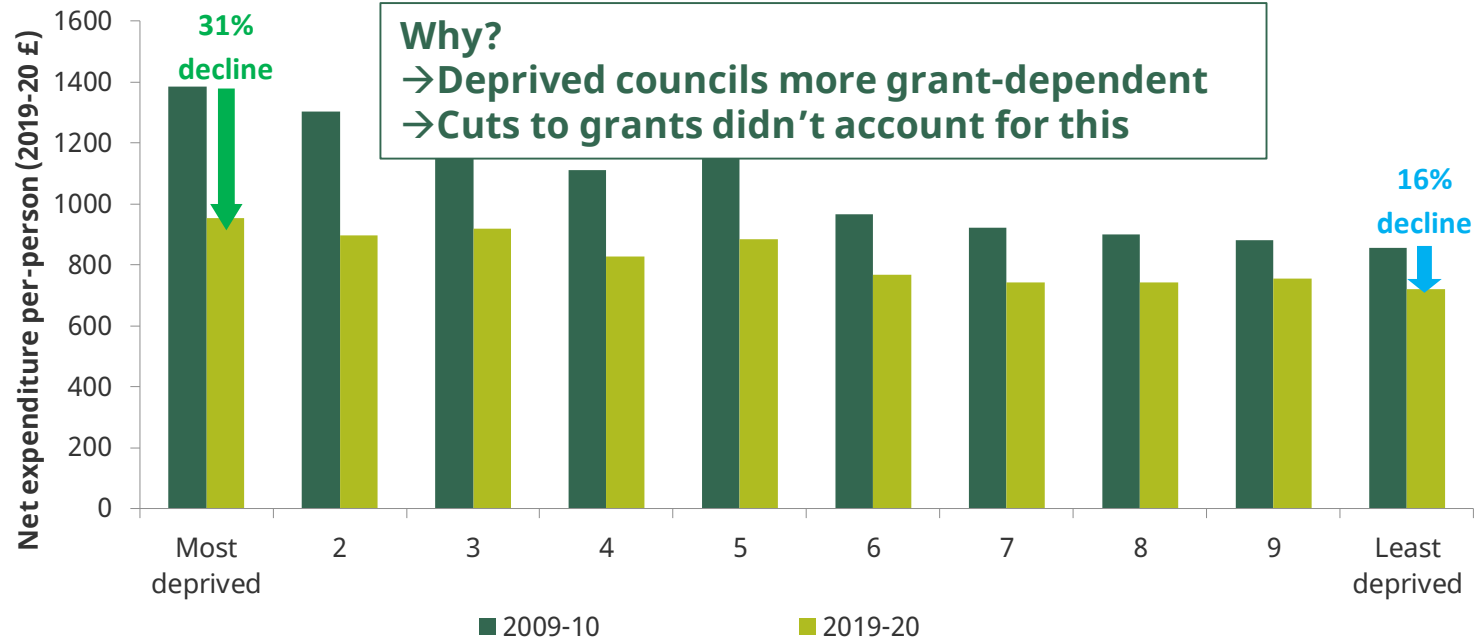
Larger cuts in more deprived areas



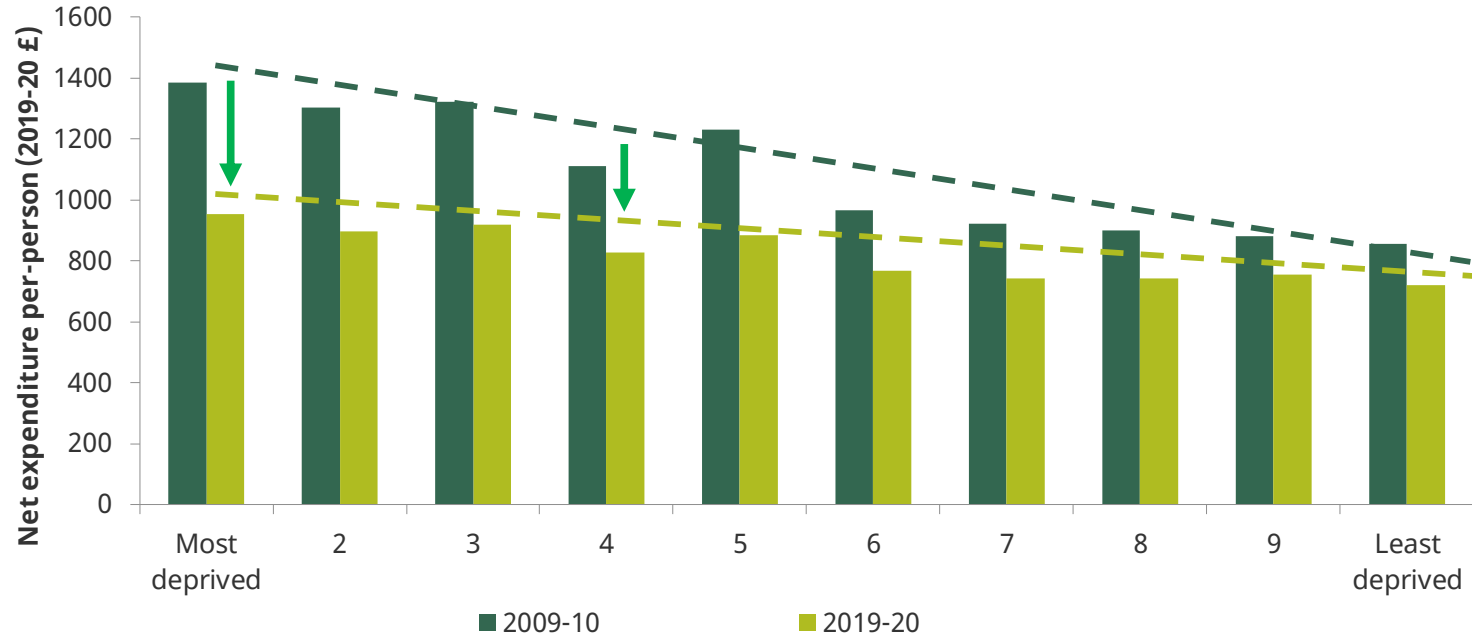
Larger cuts in more deprived areas



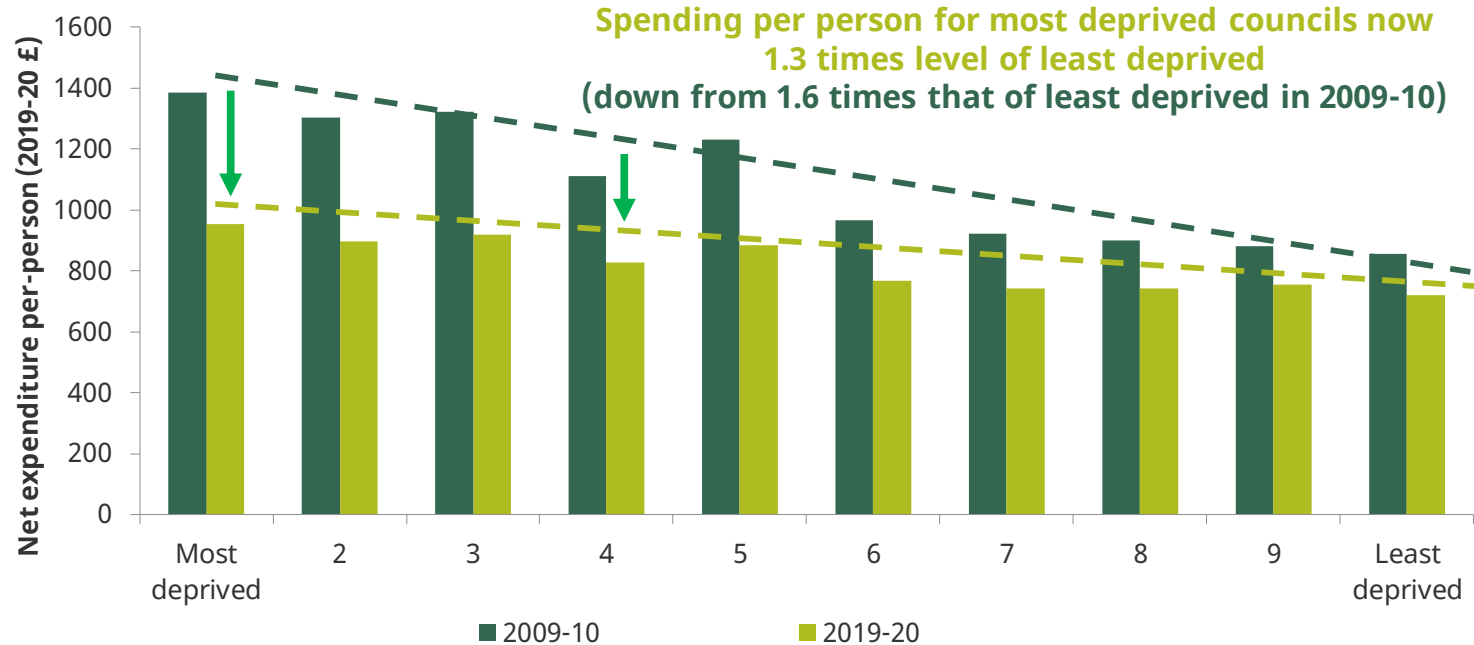
Larger cuts in more deprived areas



Despite larger cuts in more deprived areas, system still redistributive – but less so



Despite larger cuts in more deprived areas, system still redistributive – but less so



Interesting patterns in choices made

Cannot say whether current or historical relative funding levels more appropriate without:

- Defining what we expect from councils
- A robust assessment of the relative spending needs of different councils
- And a view on extent to which it is appropriate to redistribute funding

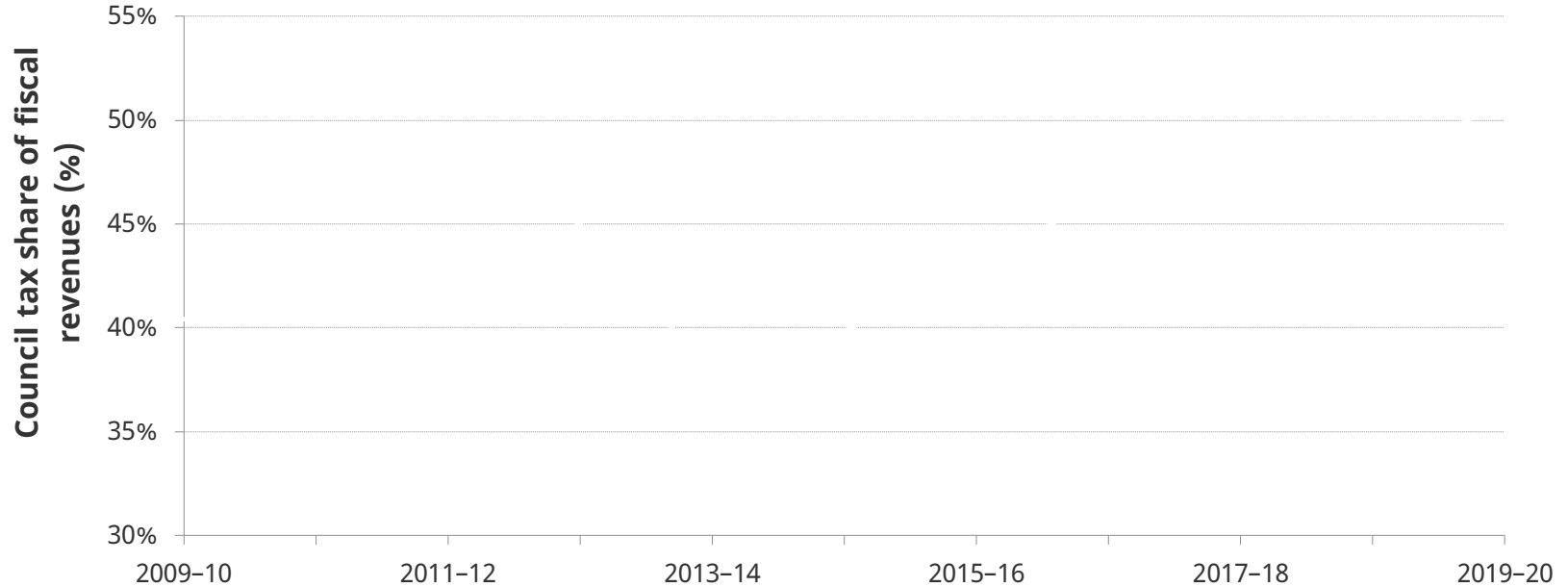
Fair Funding Review will address these questions

- But we don't observe spending needs - must instead assume them or infer them
- For services aside from social care, typically use relationship between spending and local characteristics like deprivation - but spending patterns changed

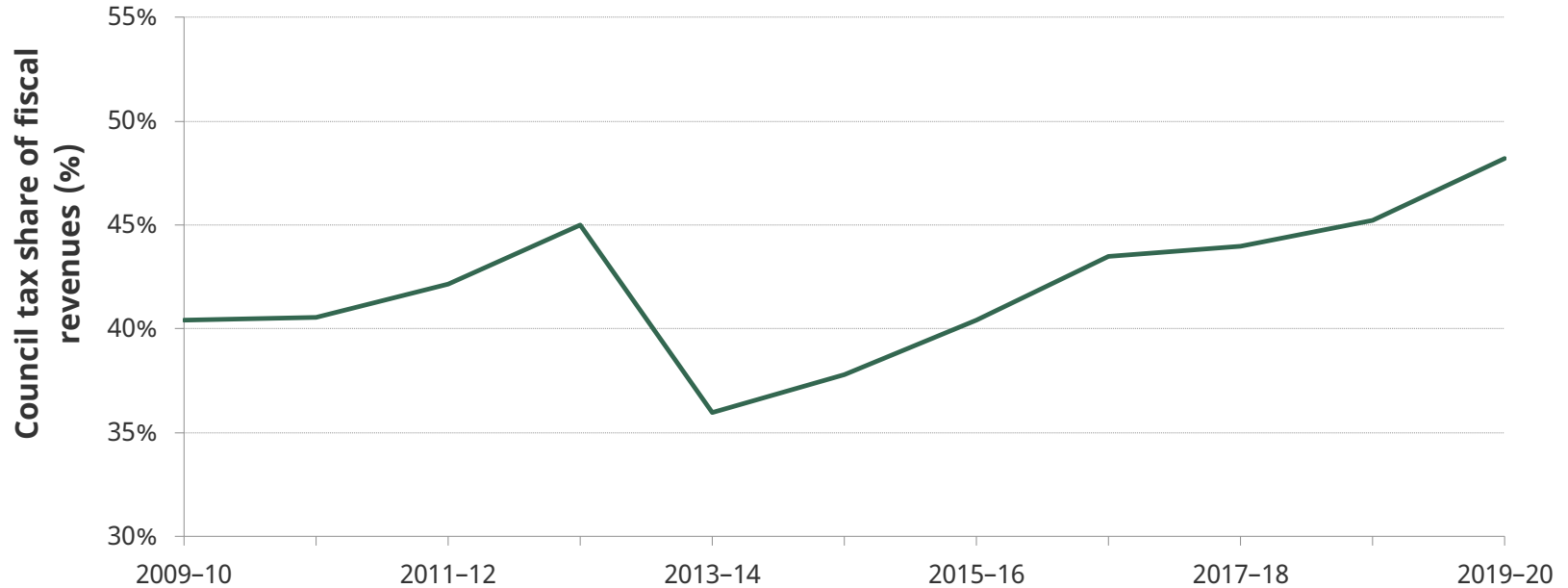
Will require subjective decision about whether historical or current spending patterns more closely aligned with differences in spending needs

1. Less redistributive funding system
2. **Greater reliance on local revenues**

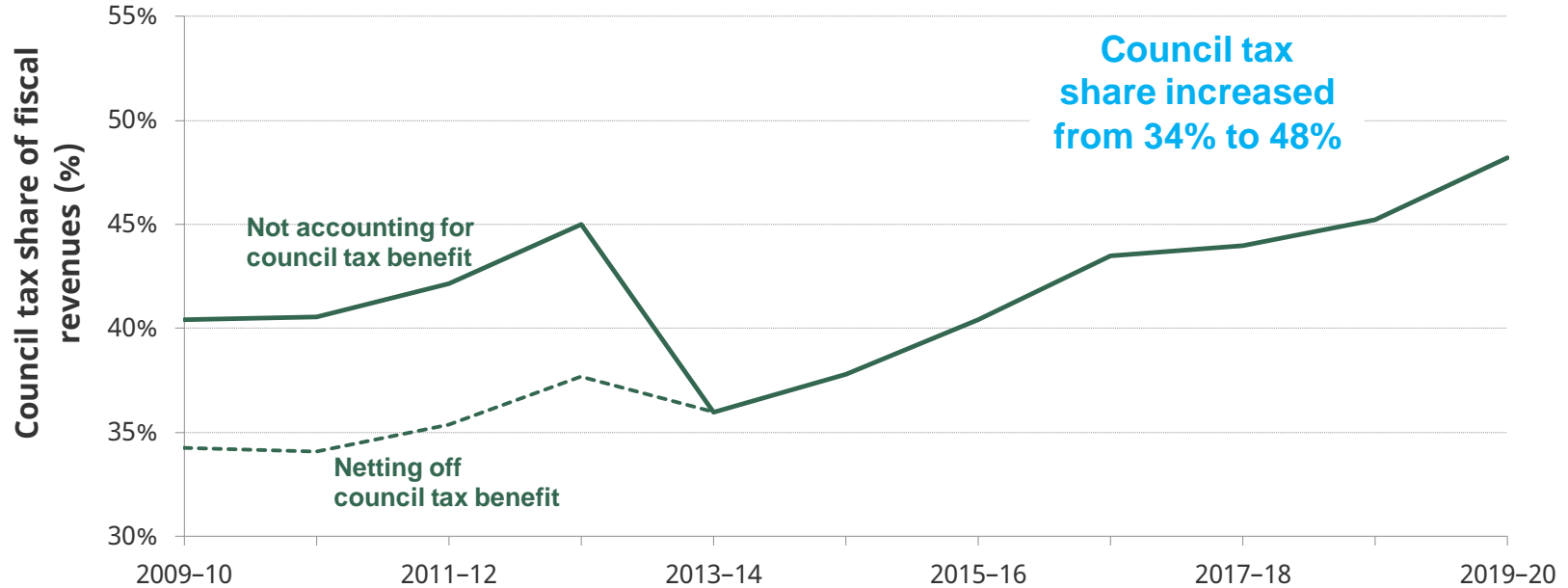
Changes led to increasing reliance on local taxes for revenues



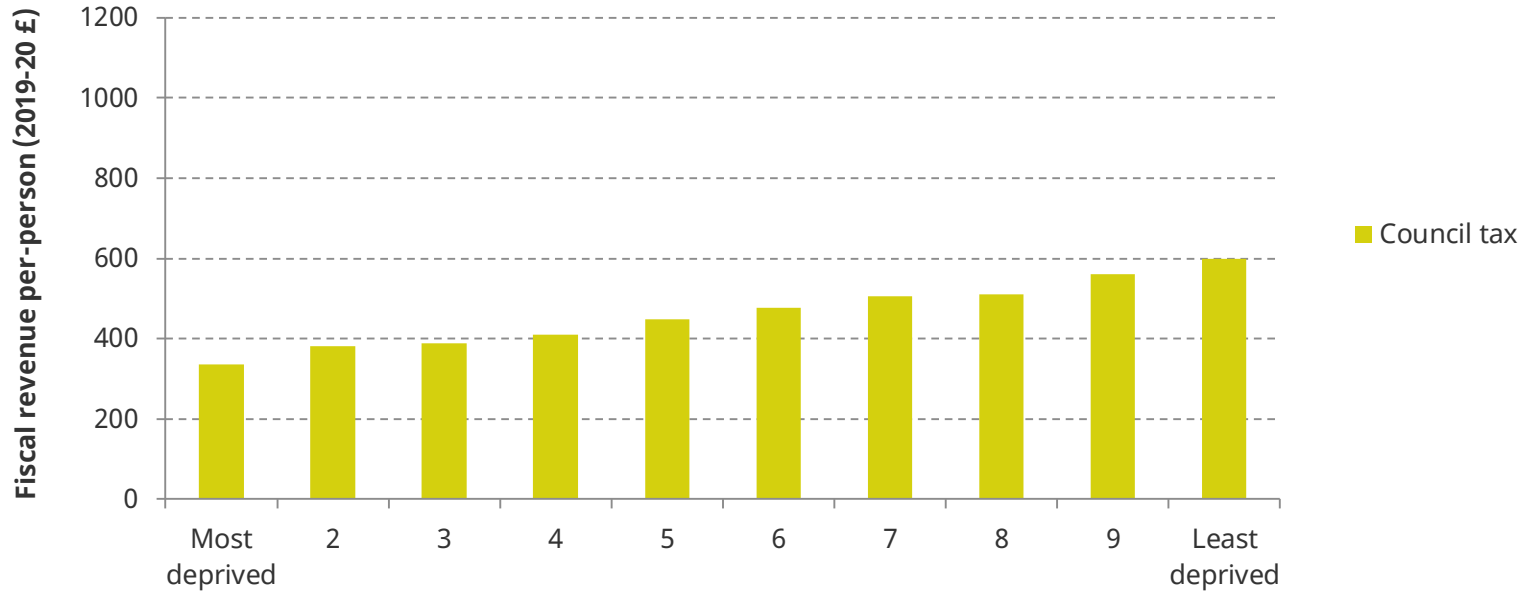
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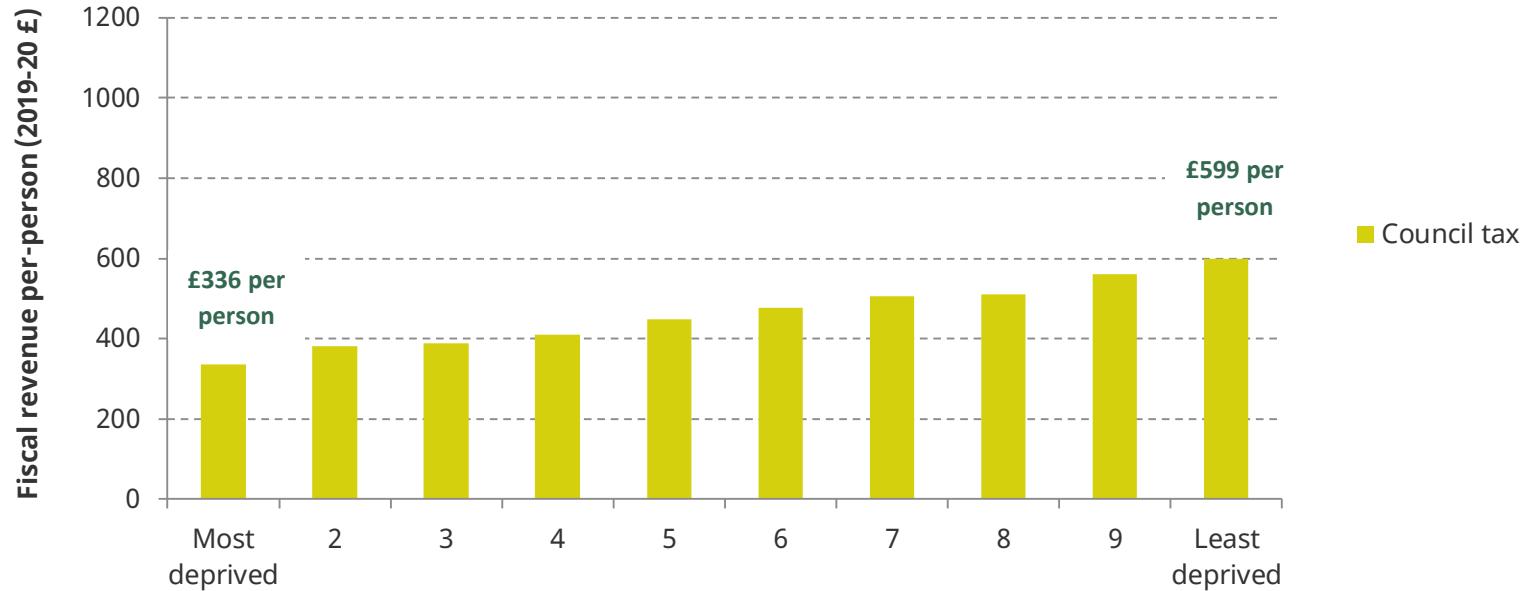
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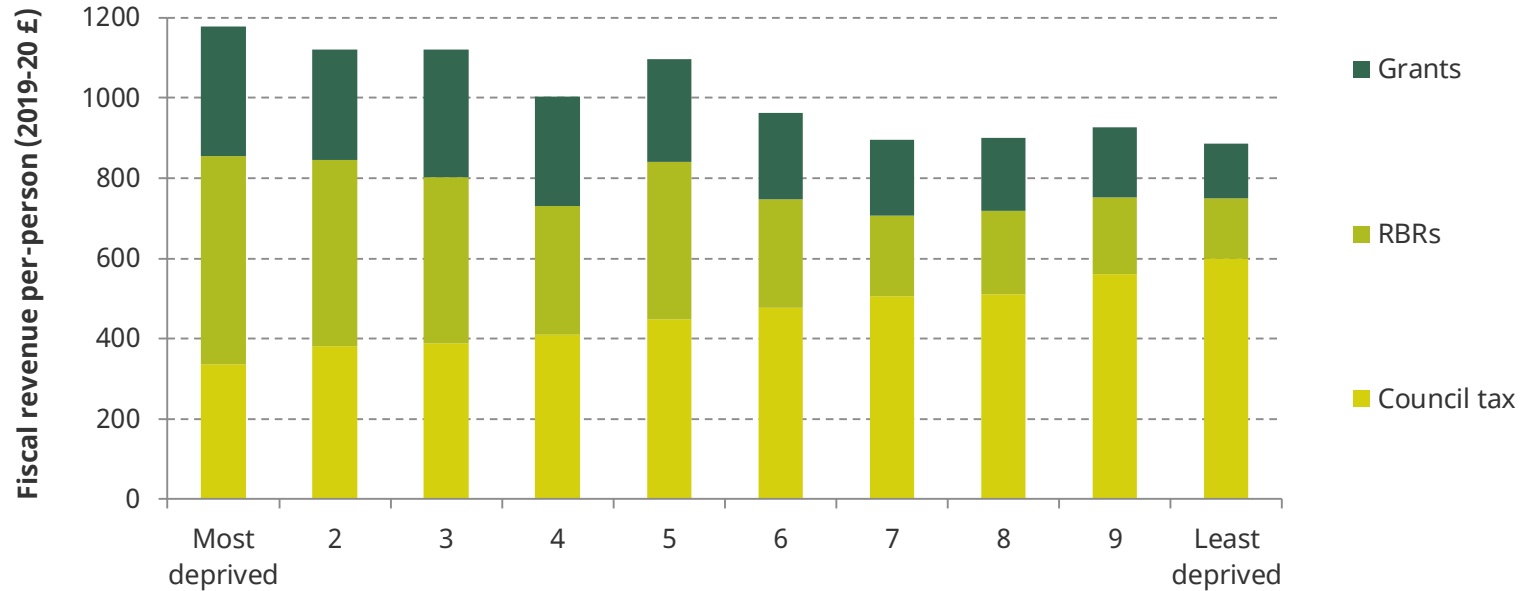
Significant variation in reliance on council tax revenues



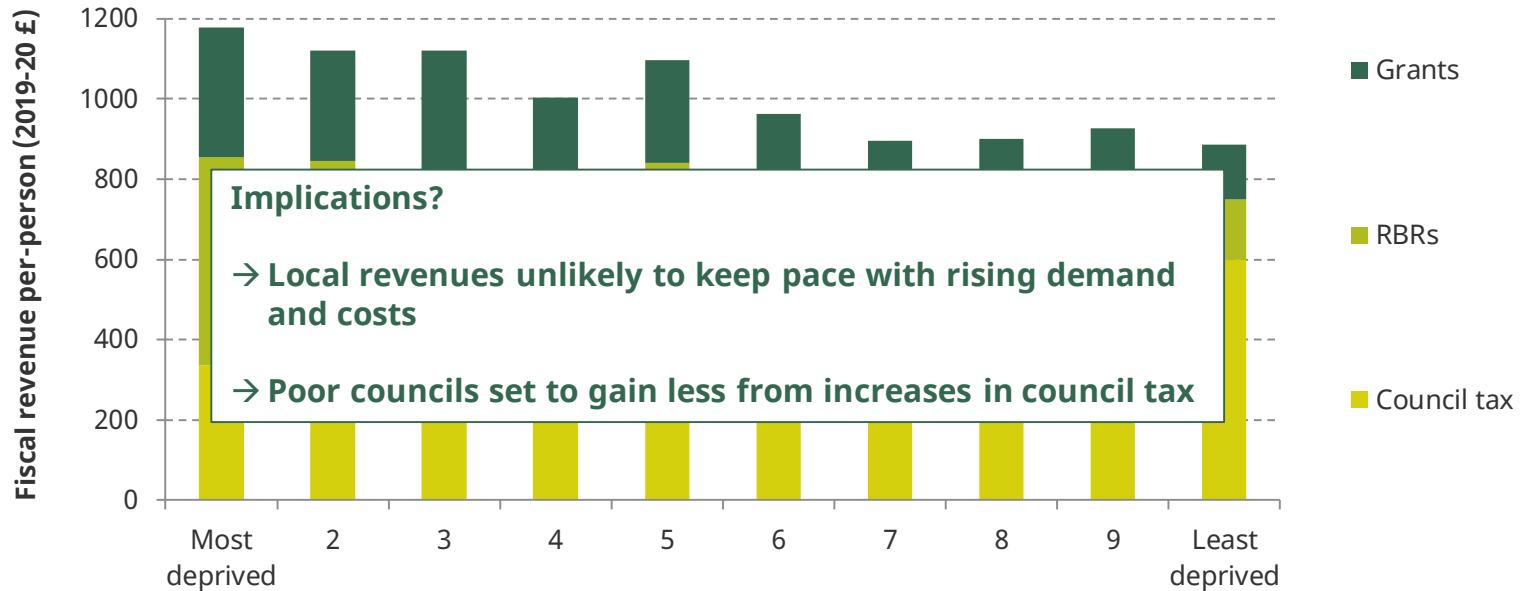
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Significant variation in reliance on council tax revenues



1. Less redistributive funding system
2. Greater reliance on local revenues
- 3. A focus on social care and statutory duties**

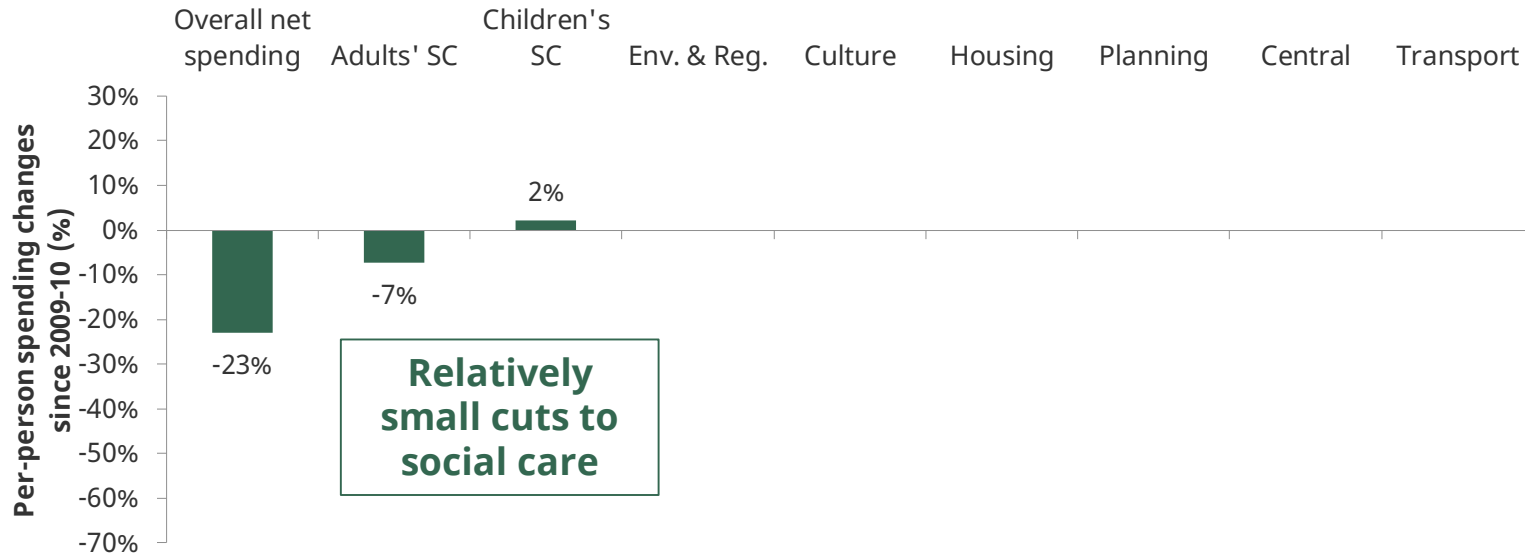
How has local government delivered the cuts?



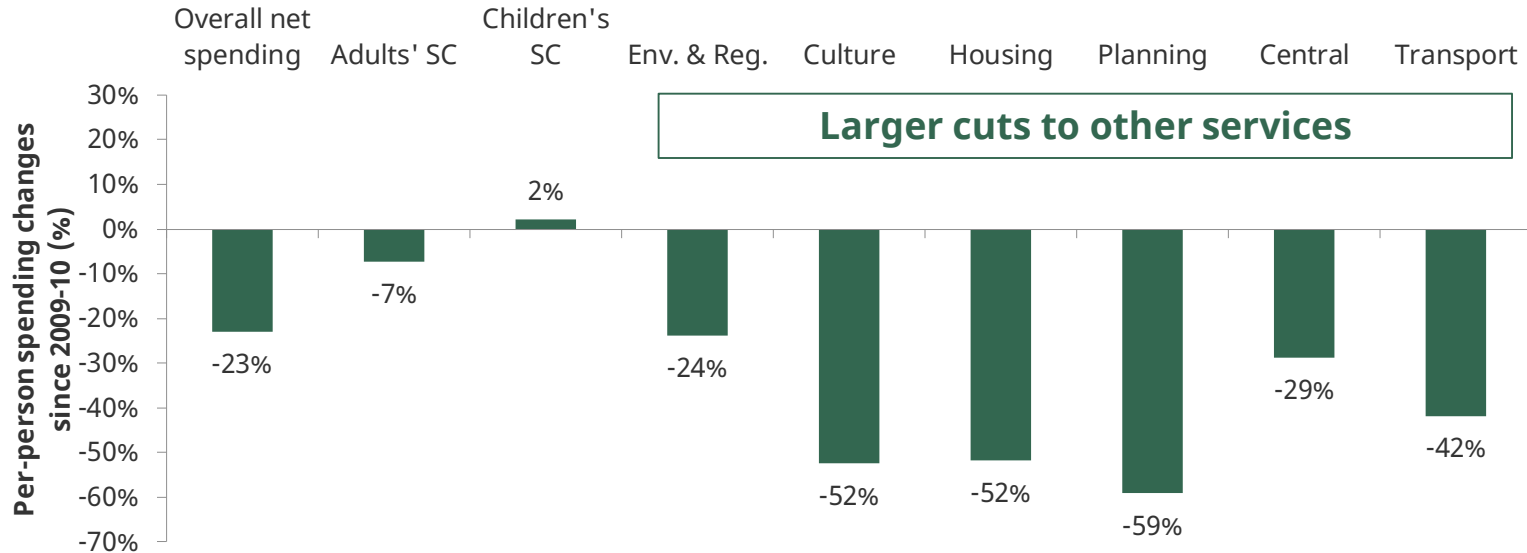
How has local government delivered the cuts?



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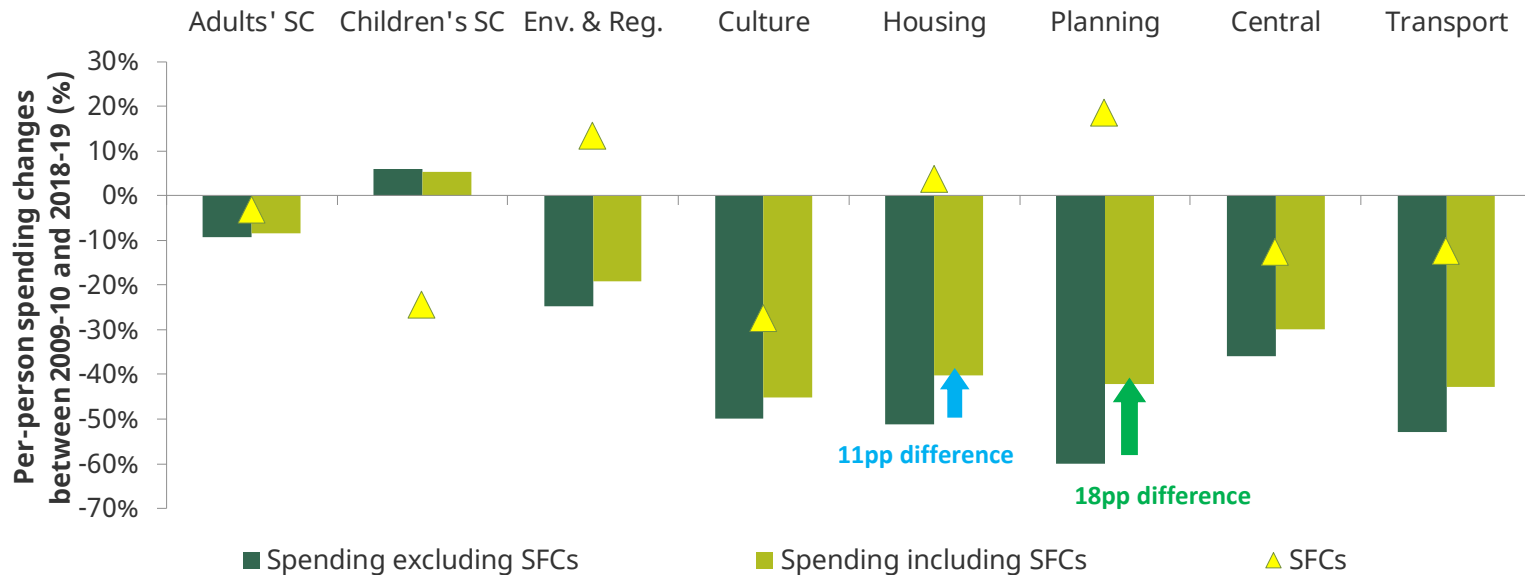


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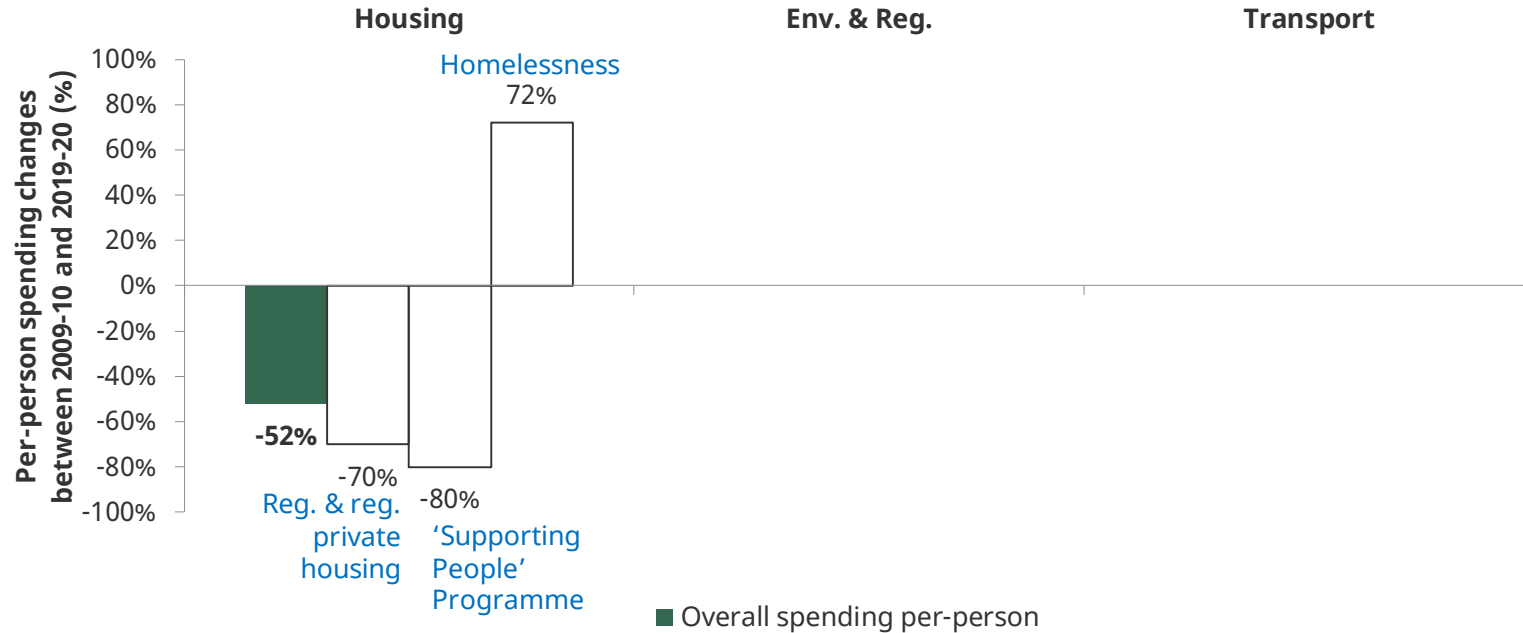
Sales, fees and charges (SFCs) have helped to mitigate impact of cuts for particular services

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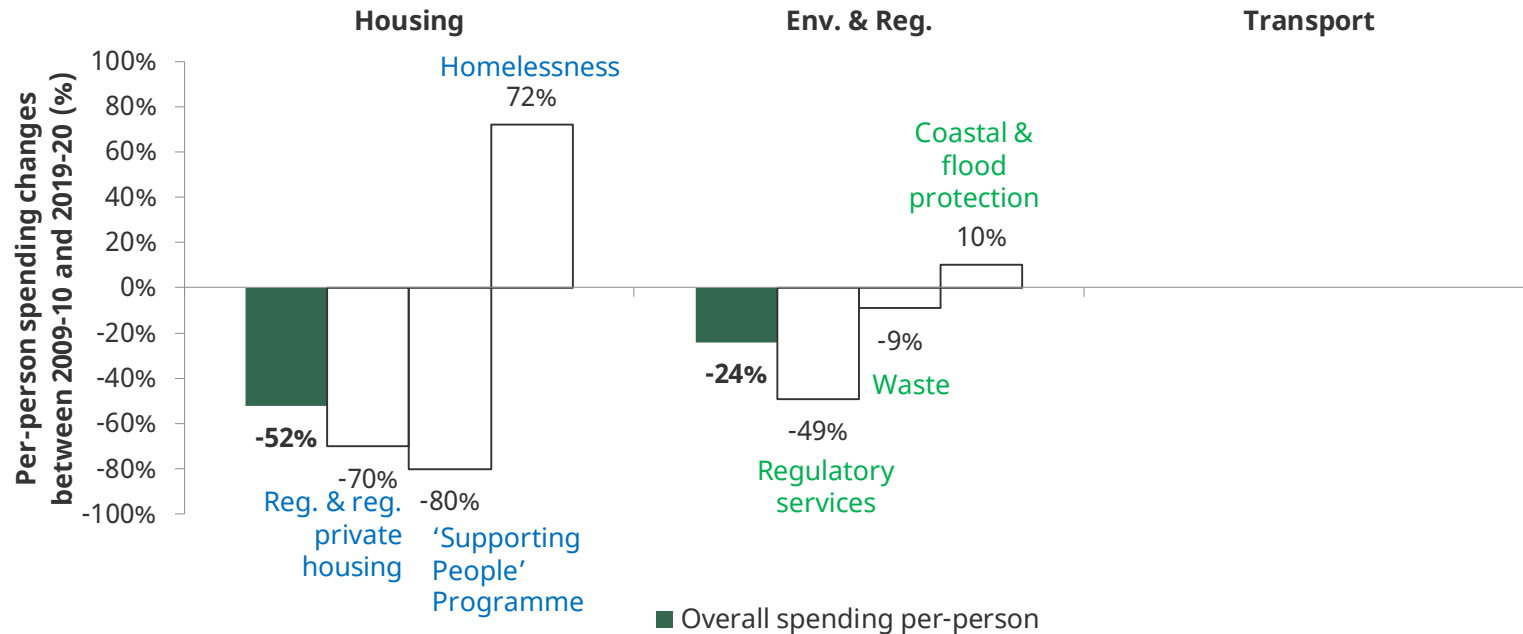


Same pattern *within* service areas

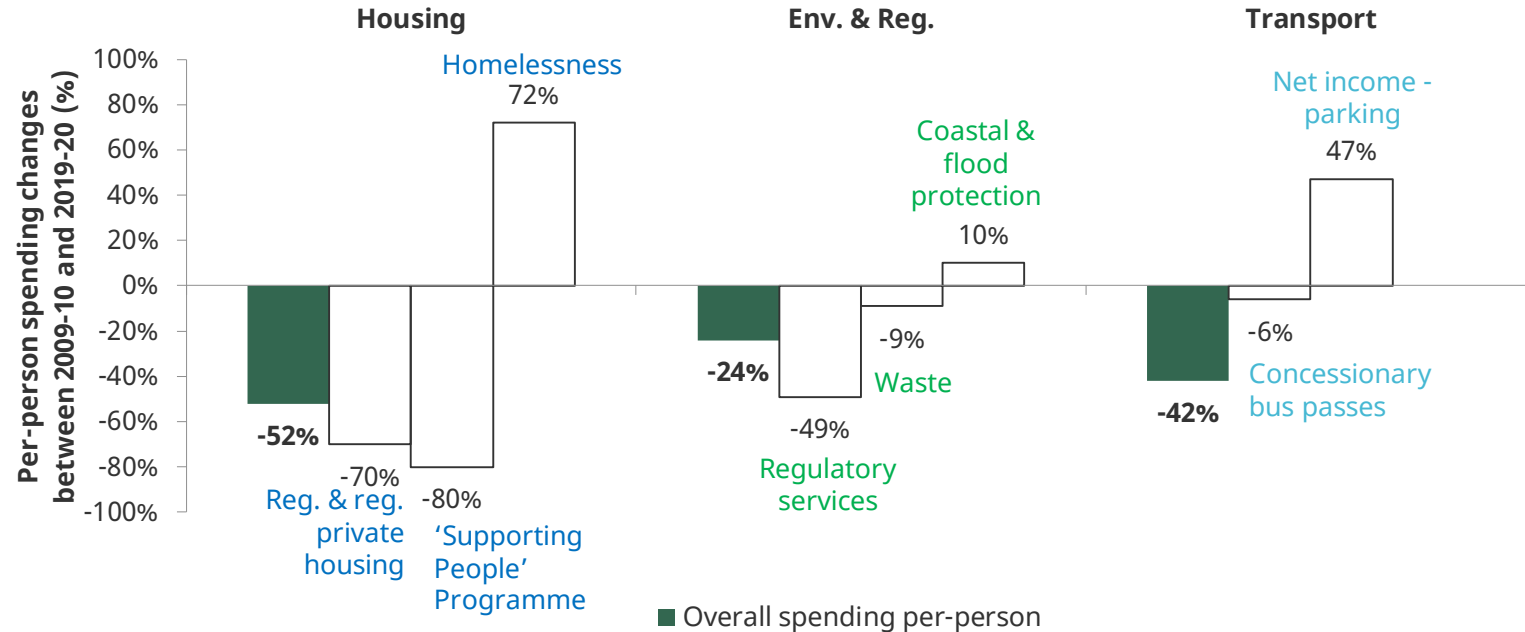
Same pattern *within* service areas



Same pattern *within* service areas



Same pattern *within* service areas



Taken together, this represents a substantial re-shaping of councils' budgets.

Tough choices & pressures for social care

Adult social care:

- Demand rising:
 - Requests for older adults increased by 4% between 2015–16 and 2018–19
 - And requests for younger adults increased by 10%
- But number of adults receiving care lower:
 - Fell 27% from 2009–10 to 2013–14, and been broadly flat since.
- Growing demand from younger adults means spending for over-65s down 18% - despite rise in elderly population

Tough choices & pressures for social care

Children's social care:

- Councils had to cope with more-than-doubling of safeguarding enquiries
- Meant that over third more children on a protection plan and 17% more 'in care'
- Overspending since 2010-11, and overspends averaged 8% since 2015-16
 - Suggest that even those increases in efficiency achieved so far may have been insufficient to meet demand.

Tough choices & pressures for social care

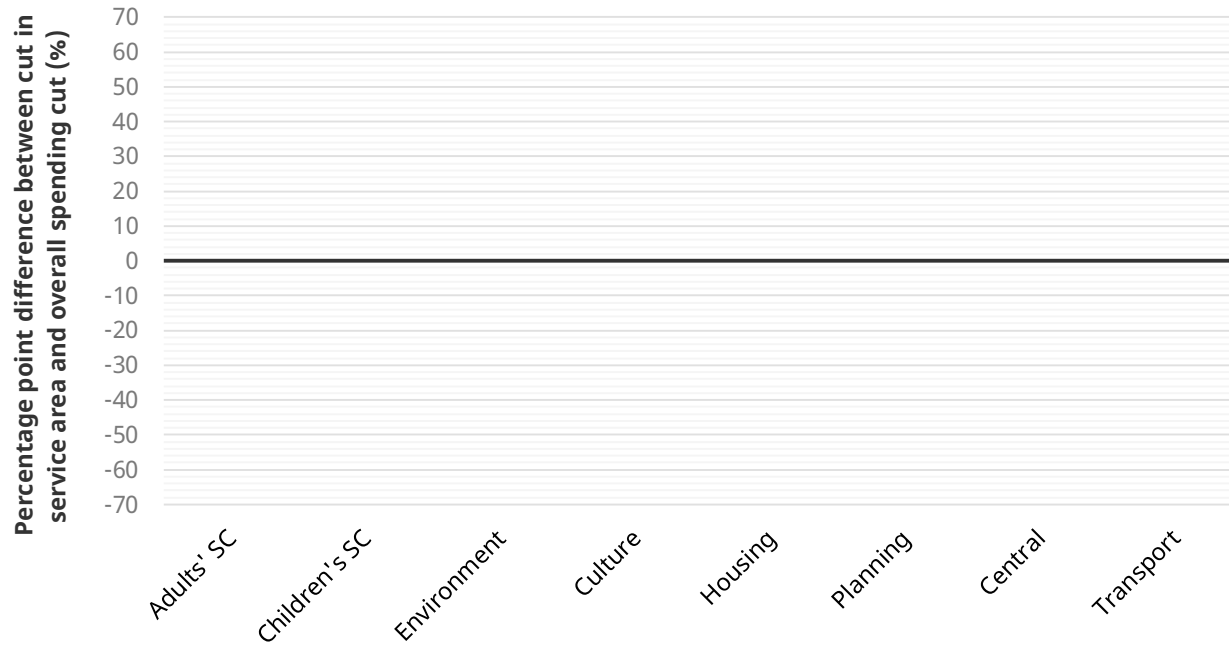
Why does this matter?

- If further cuts required, may be difficult to make further cut backs to the limited amount of spending on more discretionary services still left.
 - Already, councils that seen larger cuts made larger cuts to social care, rather than other services
- Increasing proportion of councils' spending goes to services which only relatively small fraction of population benefit directly (e.g. social care)
 - Might affect the willingness of local taxpayers to pay the tax increases needed to meet rising demands and costs.

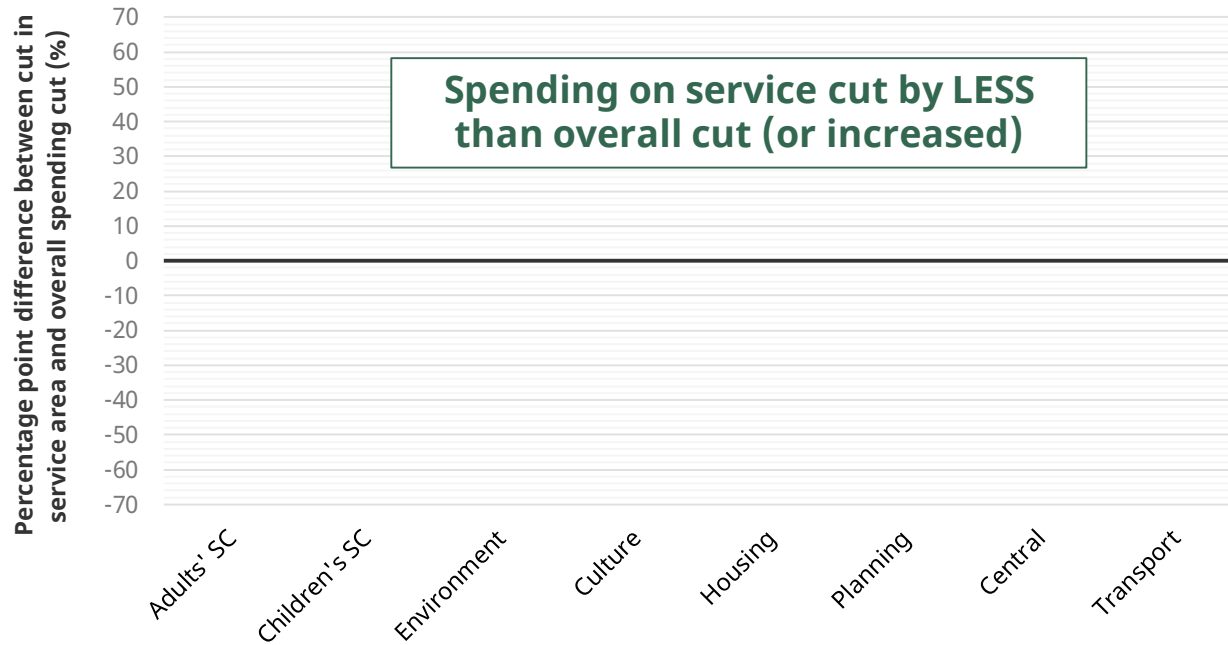
- 1. Less redistributive funding system**
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Have councils made different choices?

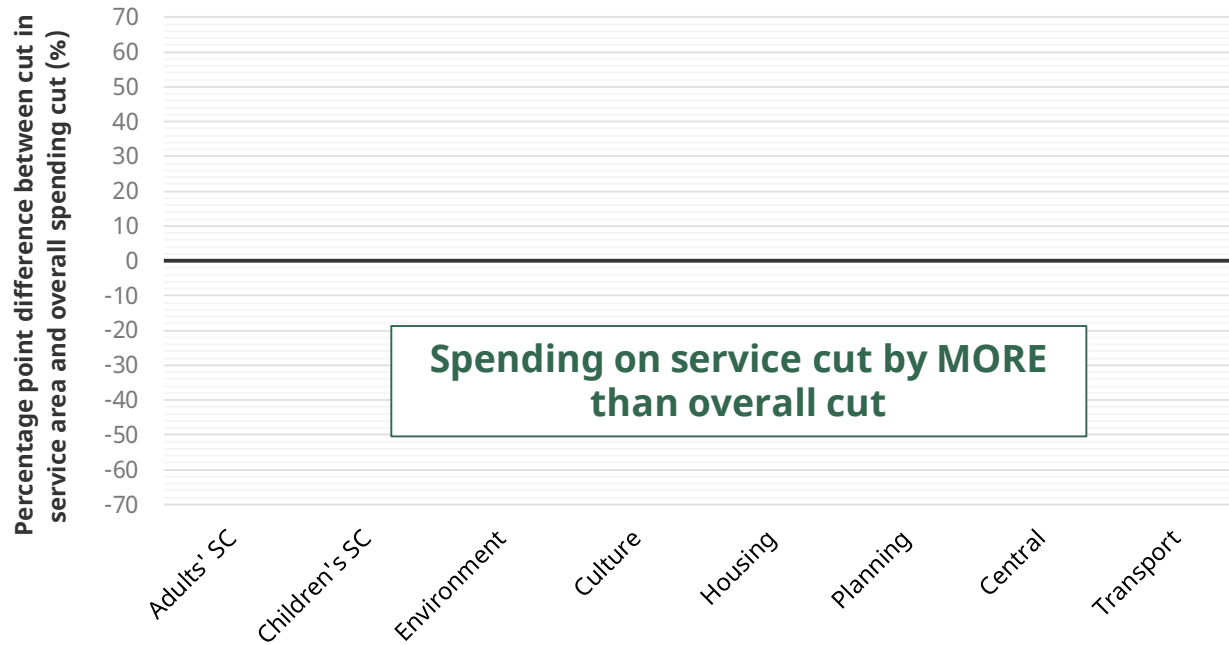
Choices of how to allocate the cuts do differ significantly across councils



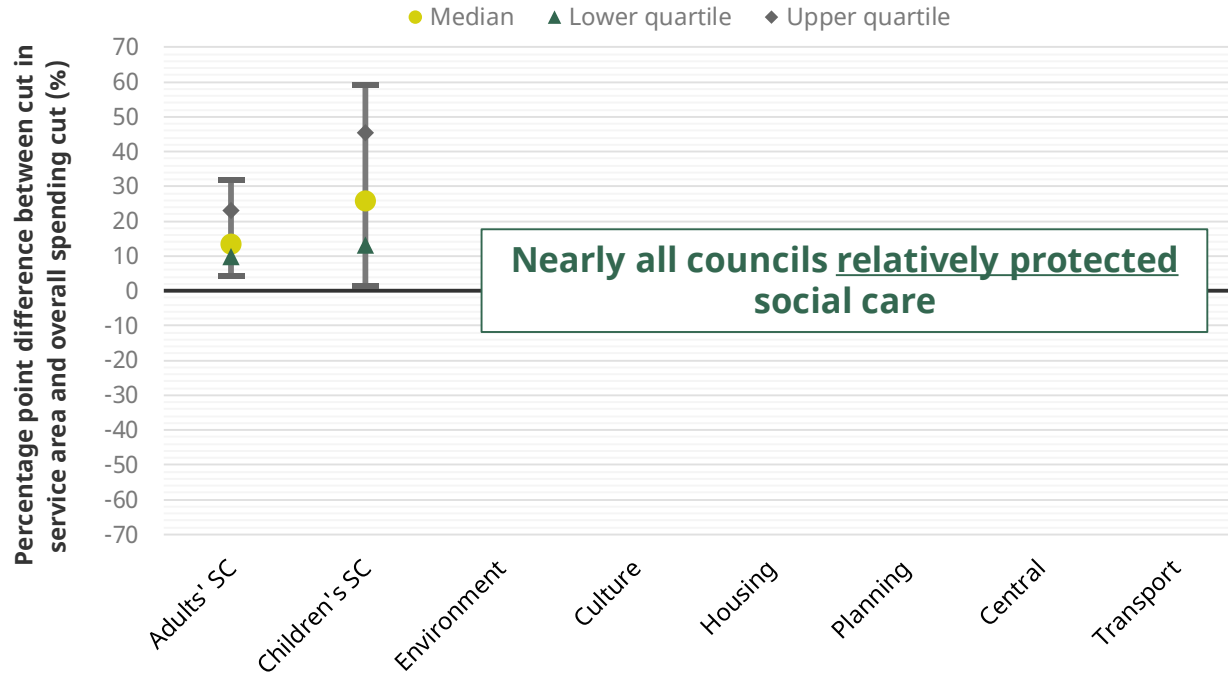
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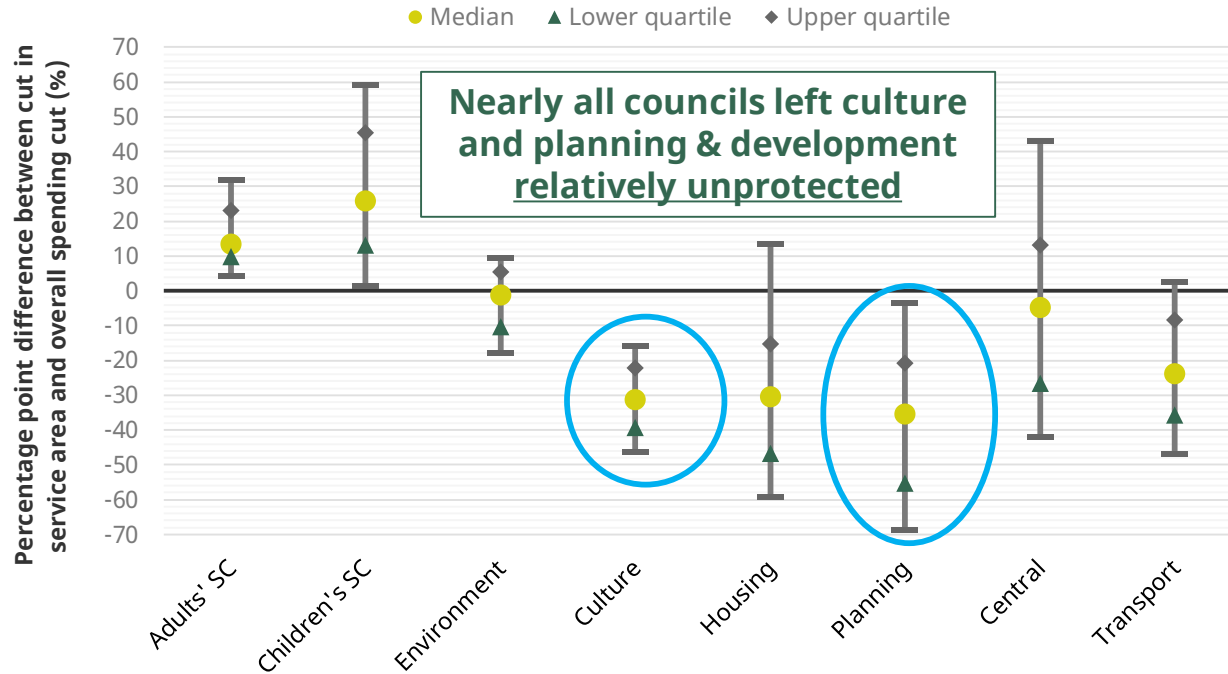
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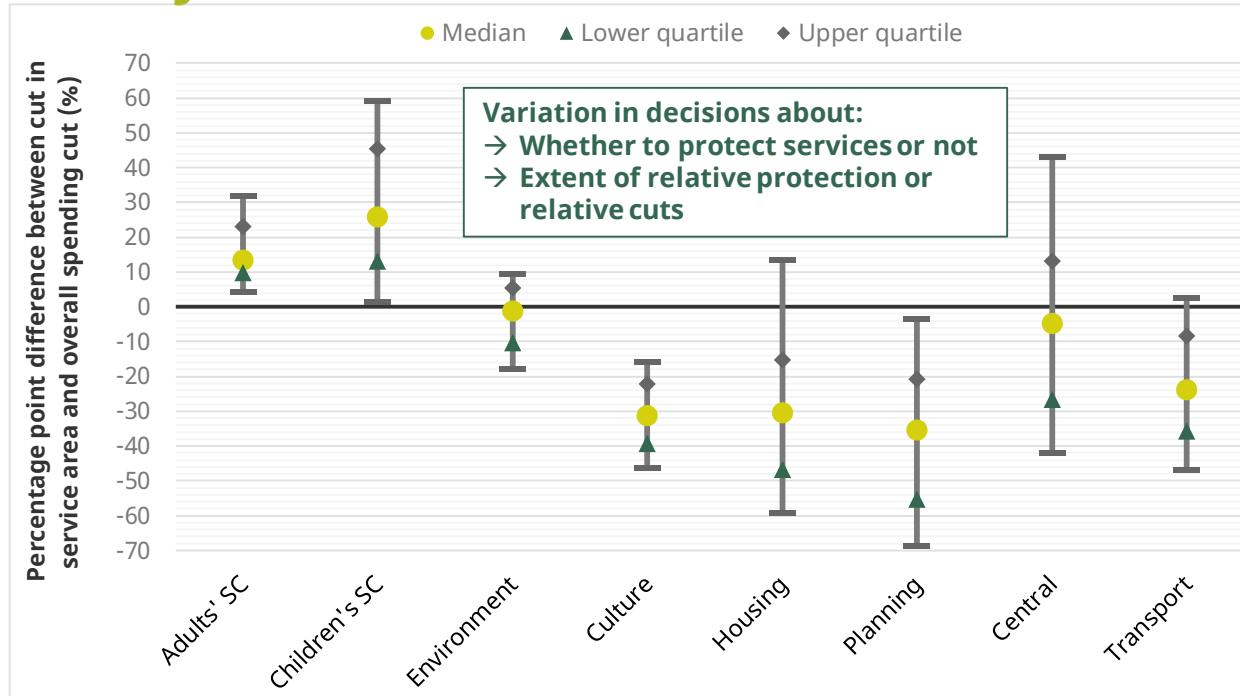
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Interesting patterns in choices made

Different types of councils have made different choices

- London: bigger cuts to ASC; smaller cuts to housing and planning & development
- Deprived councils: bigger cuts to social care

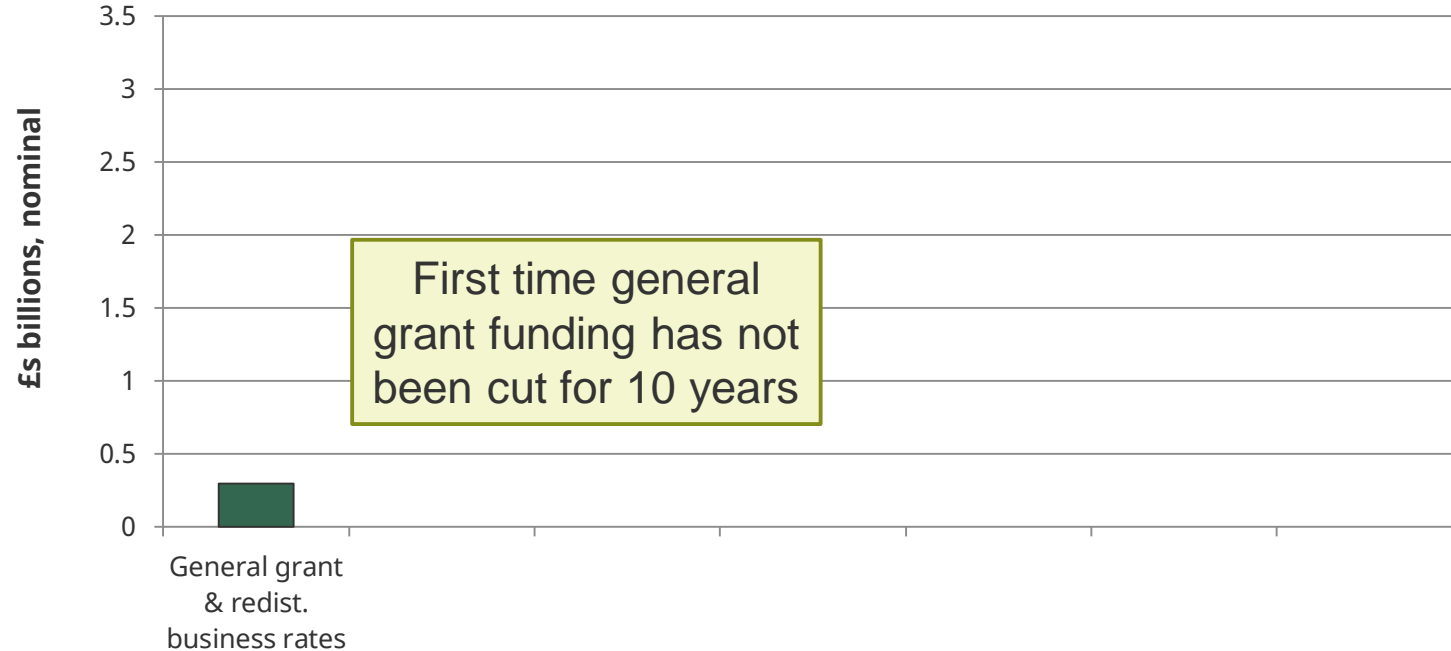
Councils prioritising spending on housing

- More councils relatively protected housing over last 4 years (up to 36% between 2016-17 and 2019-20 vs. 16% between 2009-10 and 2015-16)
- But even fewer councils relatively protected cultural and recreational services

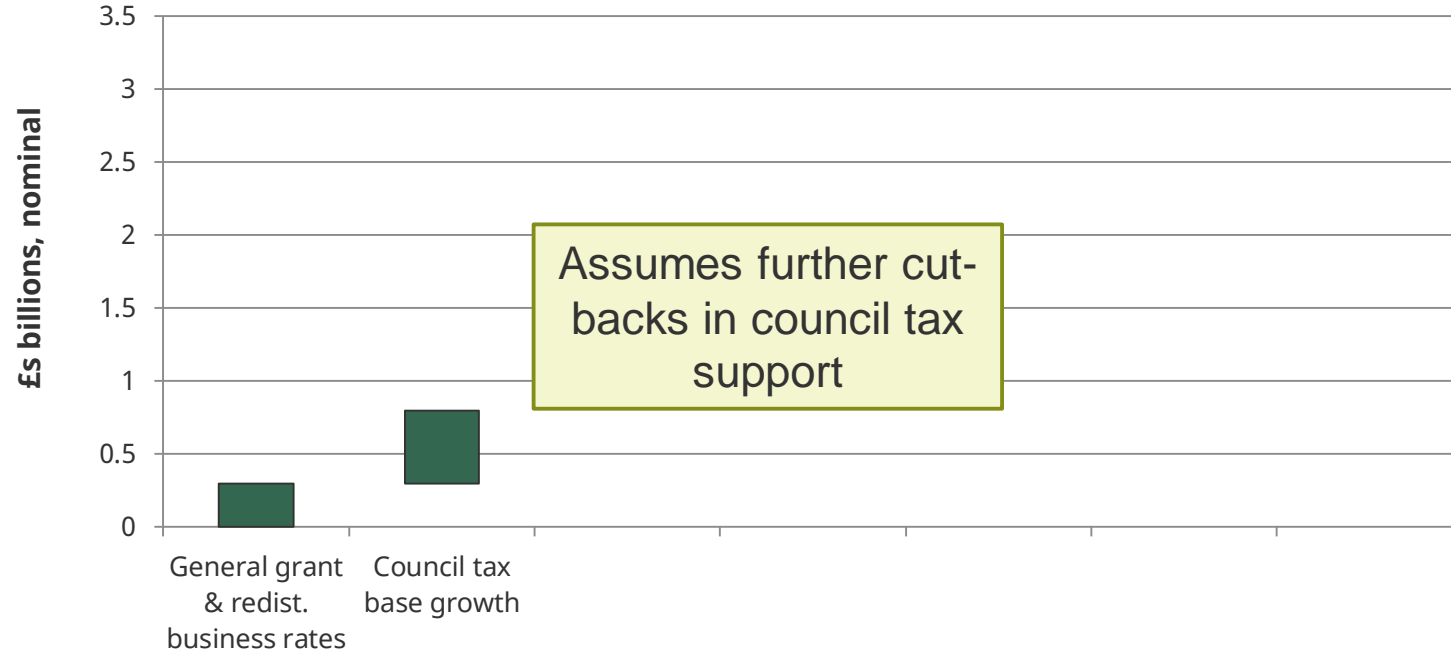
But why were different choices made? And what has the impact been?

What is the outlook for funding?

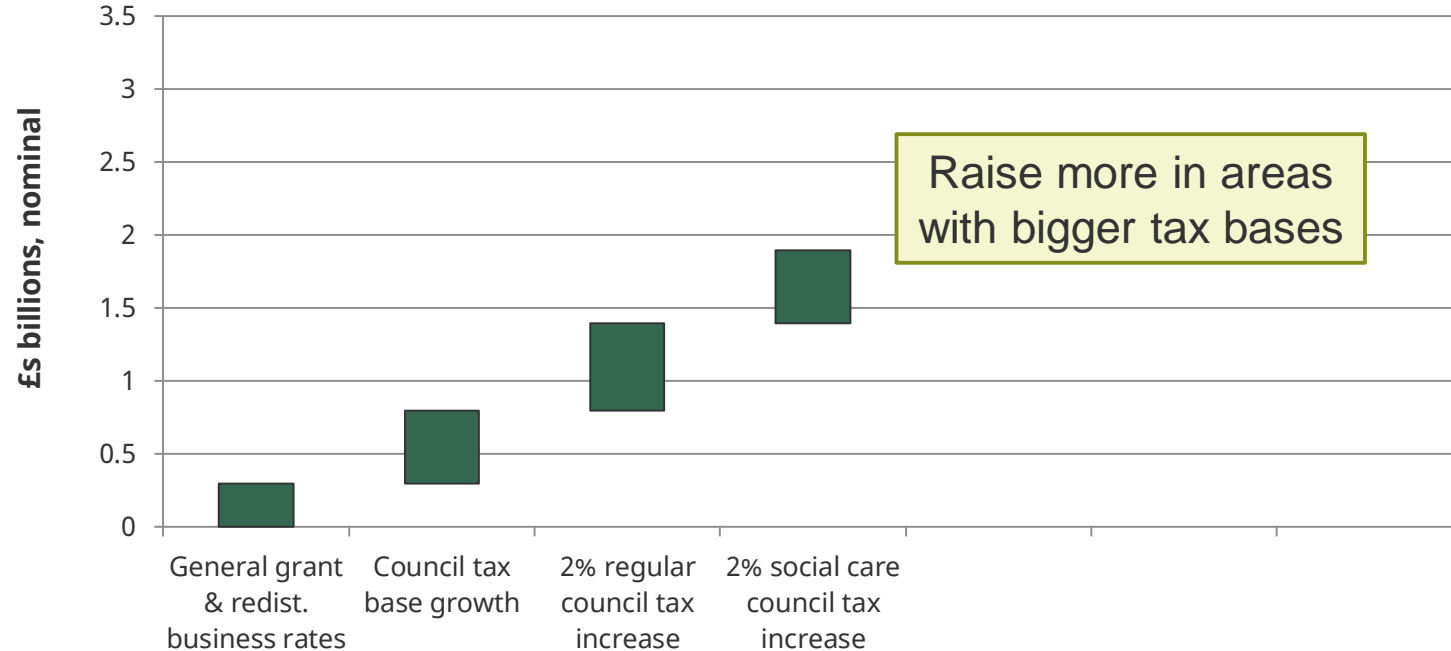
Government has projected a 4.3% real terms increase in 'core spending power' next year



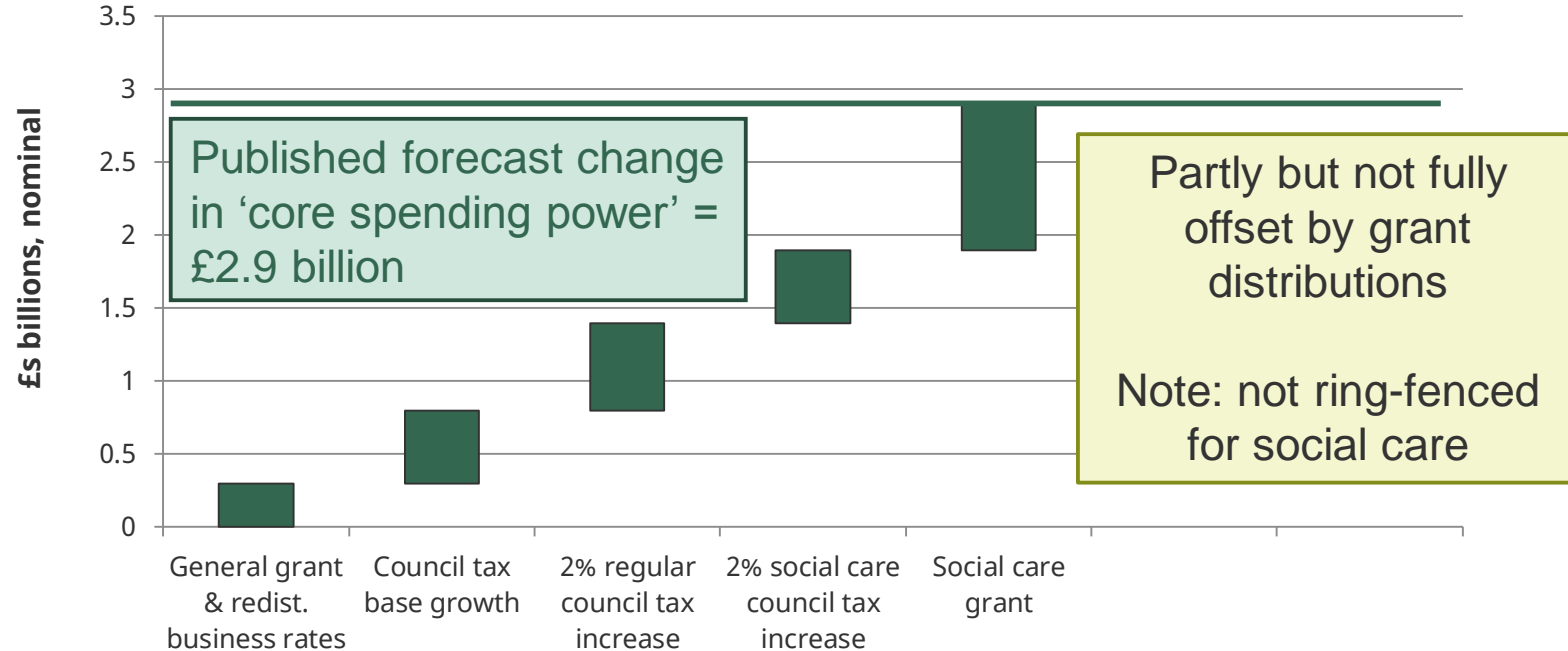
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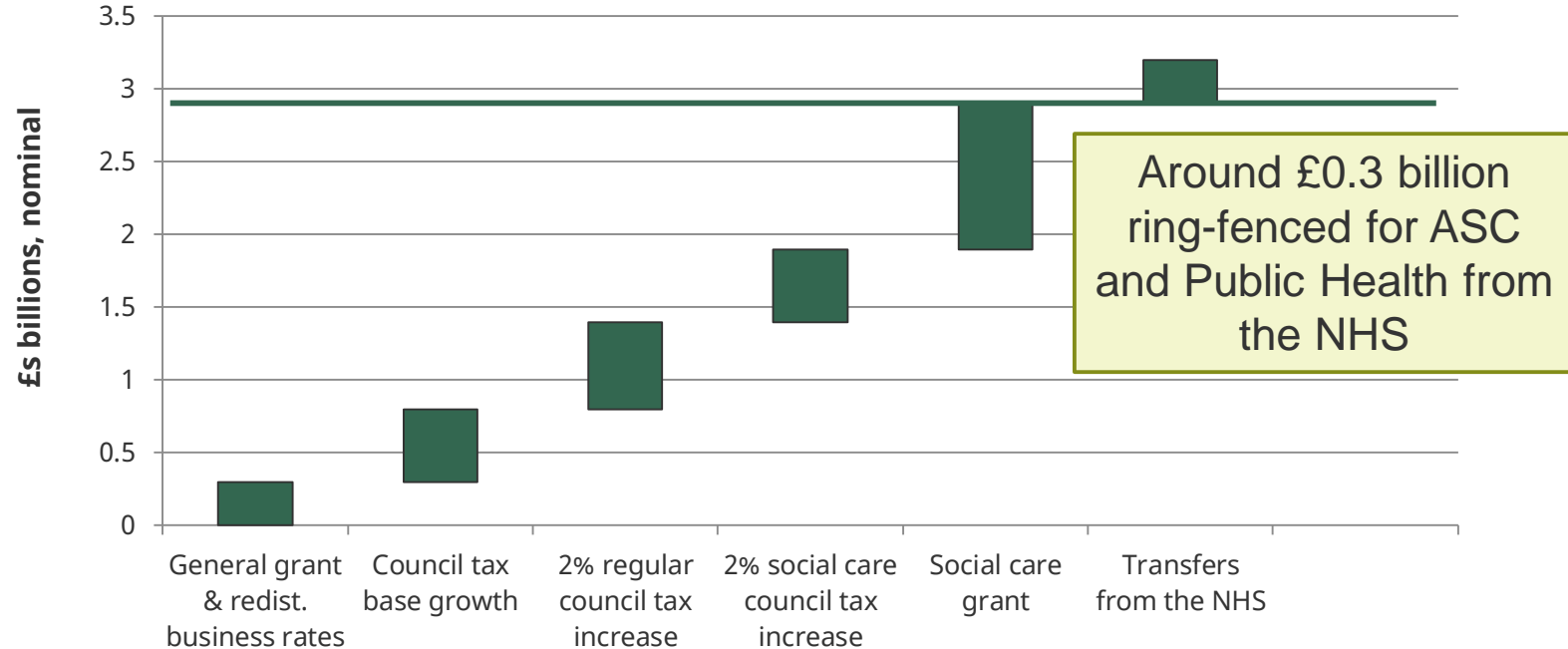
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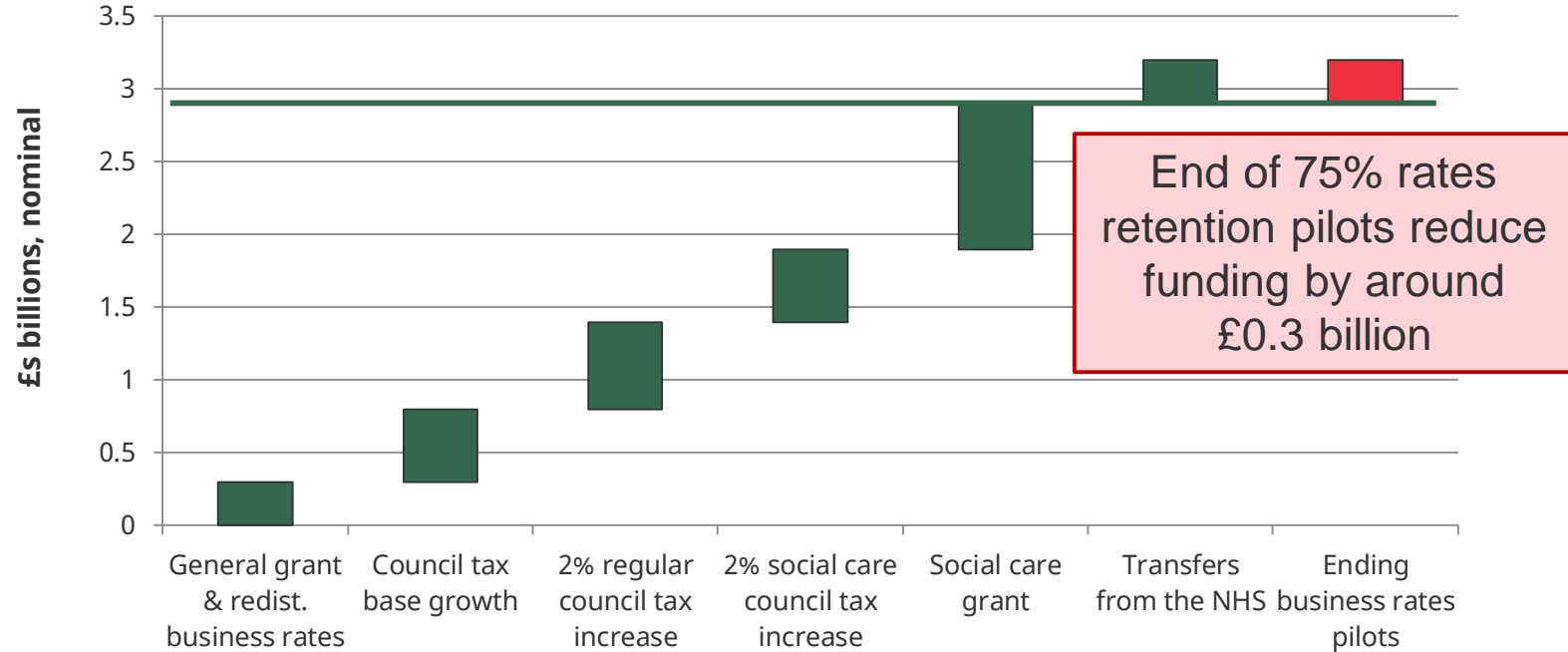
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Some councils will do better than others

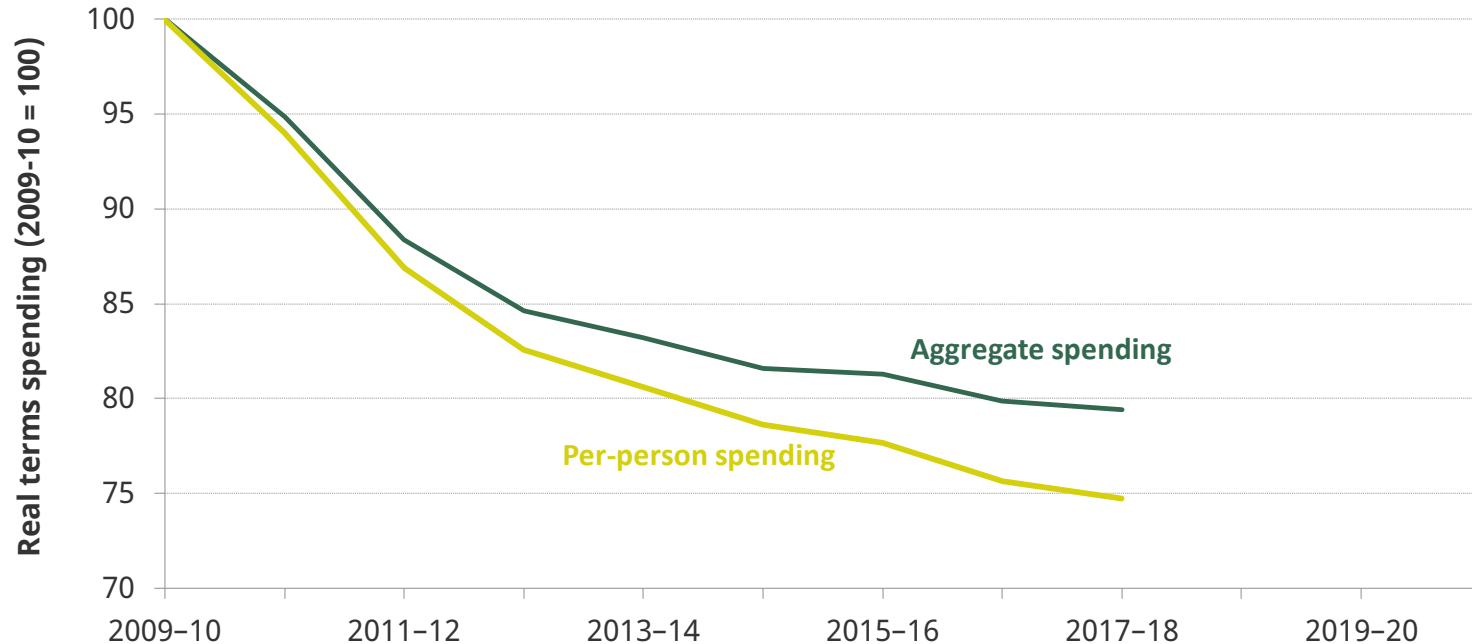
Councils with social care responsibilities will see bigger increase

- Extra grant funding and 4% council tax increases without referendum
 - Pressures from and policy focus on social care service costs
- Lower-tier districts will rely on tax base growth for any real-terms increase
 - Still better than previous years when grant funding cut

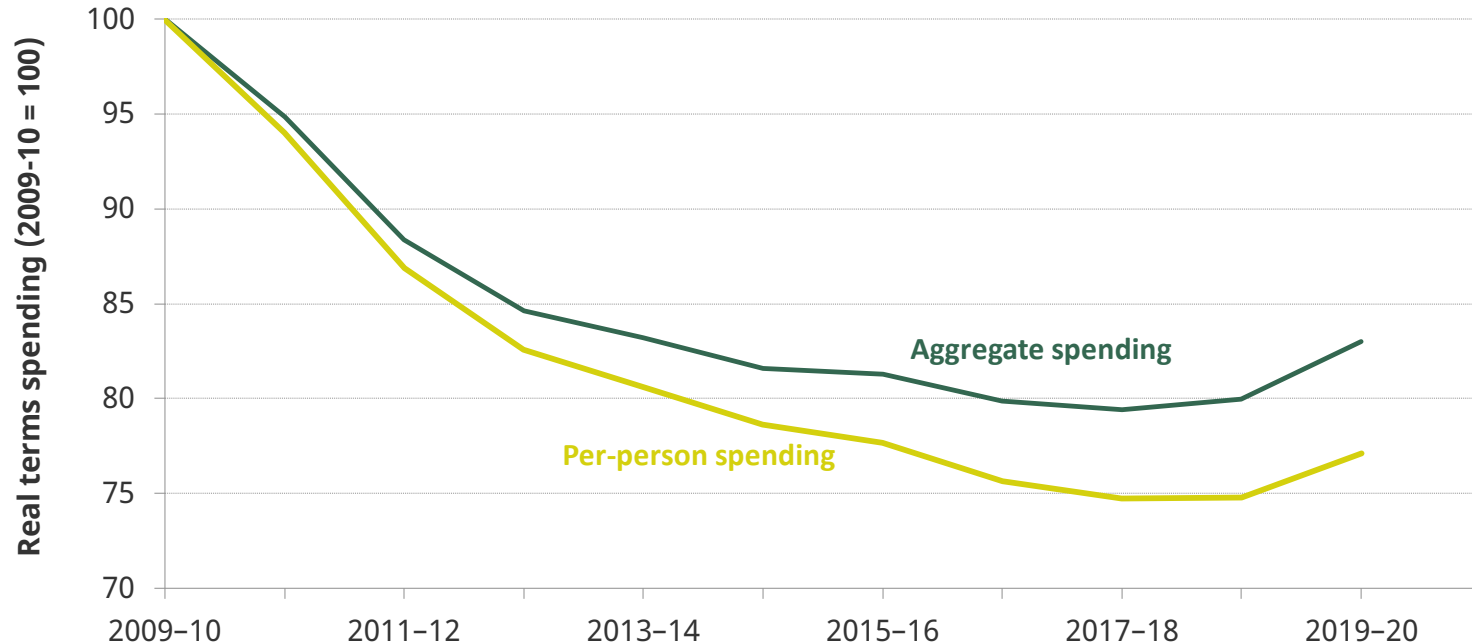
149 Councils currently piloting 75% retention will see smaller increases

- Currently receiving additional £258 million as a result of pilots
- On average, underlying rates growth of 3% needed to offset loss of this; underlying growth has totalled 10% over last 7 years.
- Little rationale for pilots though – limited learning opportunity

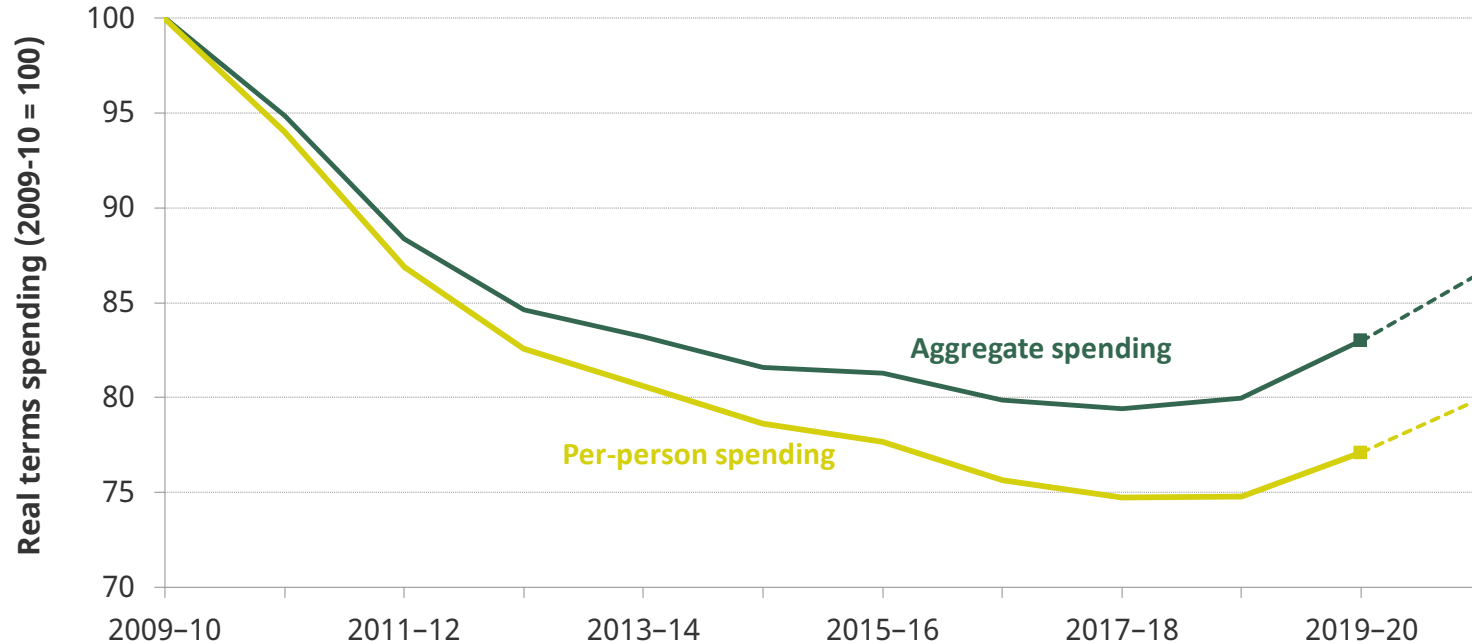
Extra funding could undo up to 1/5th of peak-to-trough fall in spending per person



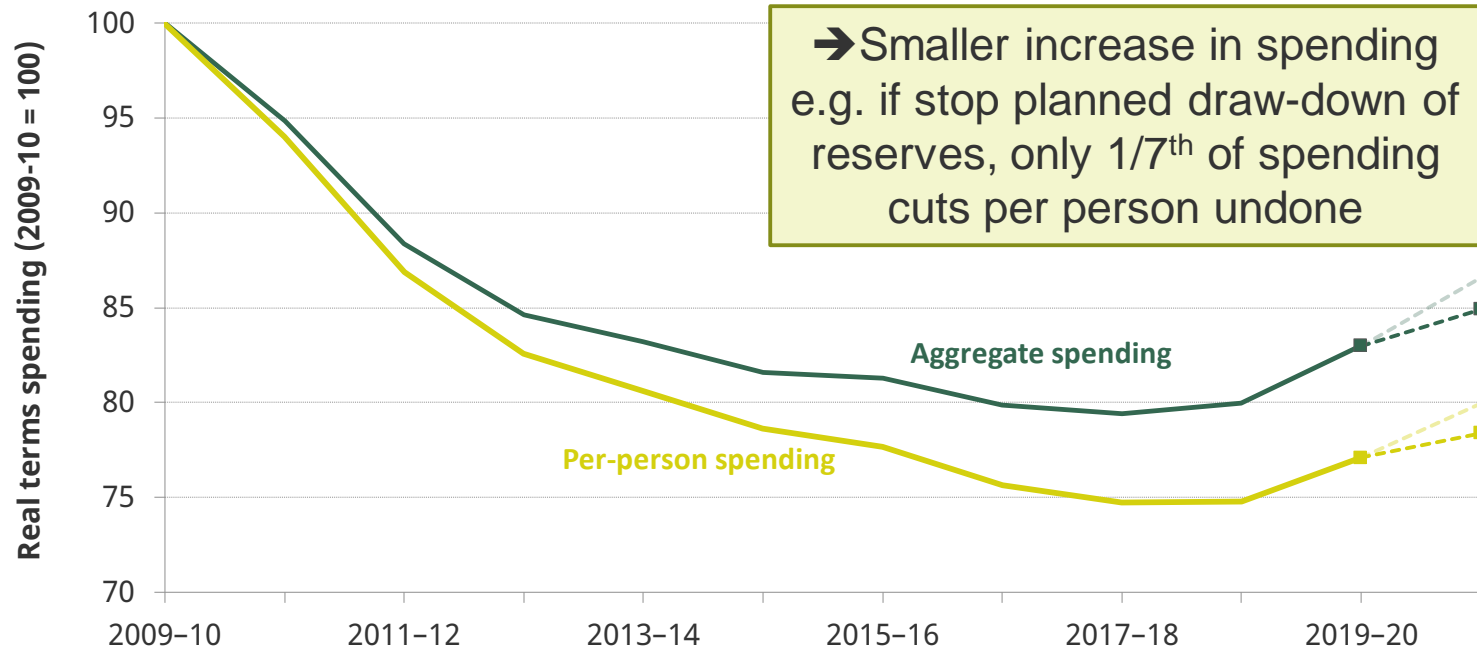
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But councils could choose to use additional funding to improve reserves position



Longer term outlook is uncertain, but next year could be just a lull in the storm

Rising demands for and costs of service provision – especially social care

Projections of real-terms increases in spending needs

Study	Adults' social care	Children's services	Other services	Overall
Johnson et al (2018)	3.7%			
OBR (2018) - central	3.4%			

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PwC (2019)	2.3%			
IfG (2019)	2.2%			

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LGA (2018)	1.7%	3.1%	0.4%	1.6%
PwC (2019)	2.3%	1.5%	0.5%	1.4%
IfG (2019)	2.2%	1.5%	0.6%	N/A

Longer term outlook is uncertain, but next year could be just a lull in the storm

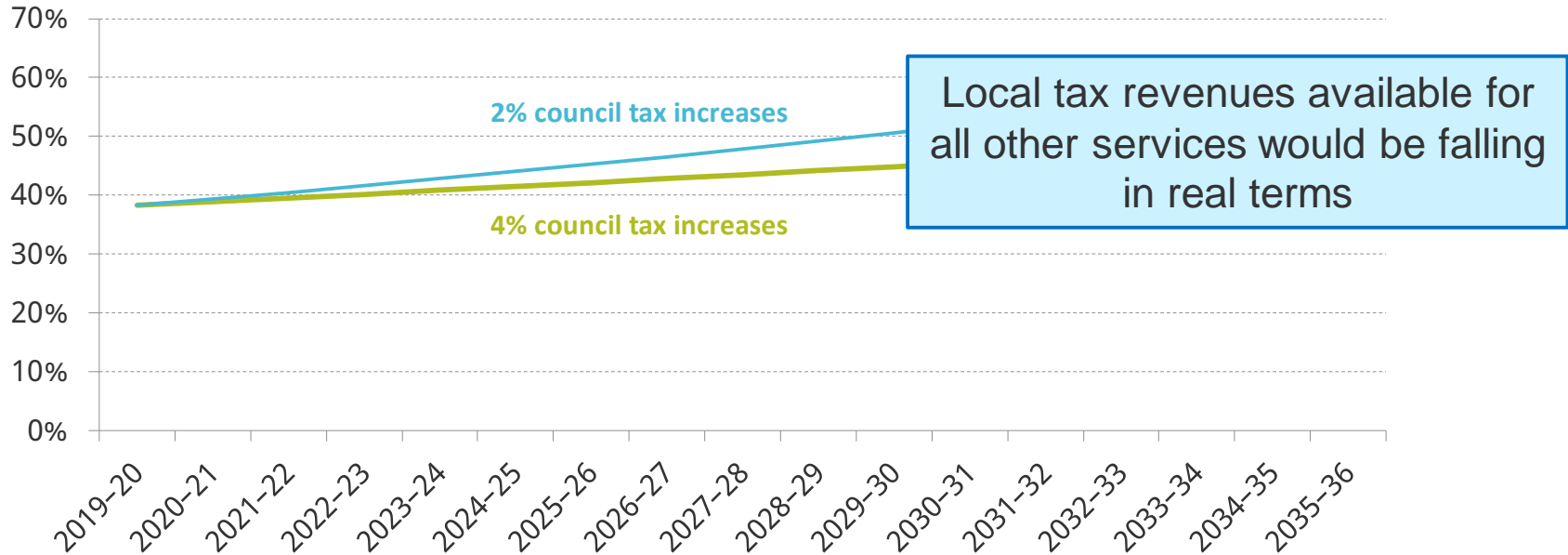
Rising demands for and costs of service provision – especially social care

Local tax revenues unlikely to keep pace with these pressures

Plan is to move to 75% business rates retention in 2021-22 and abolish general and public health grants

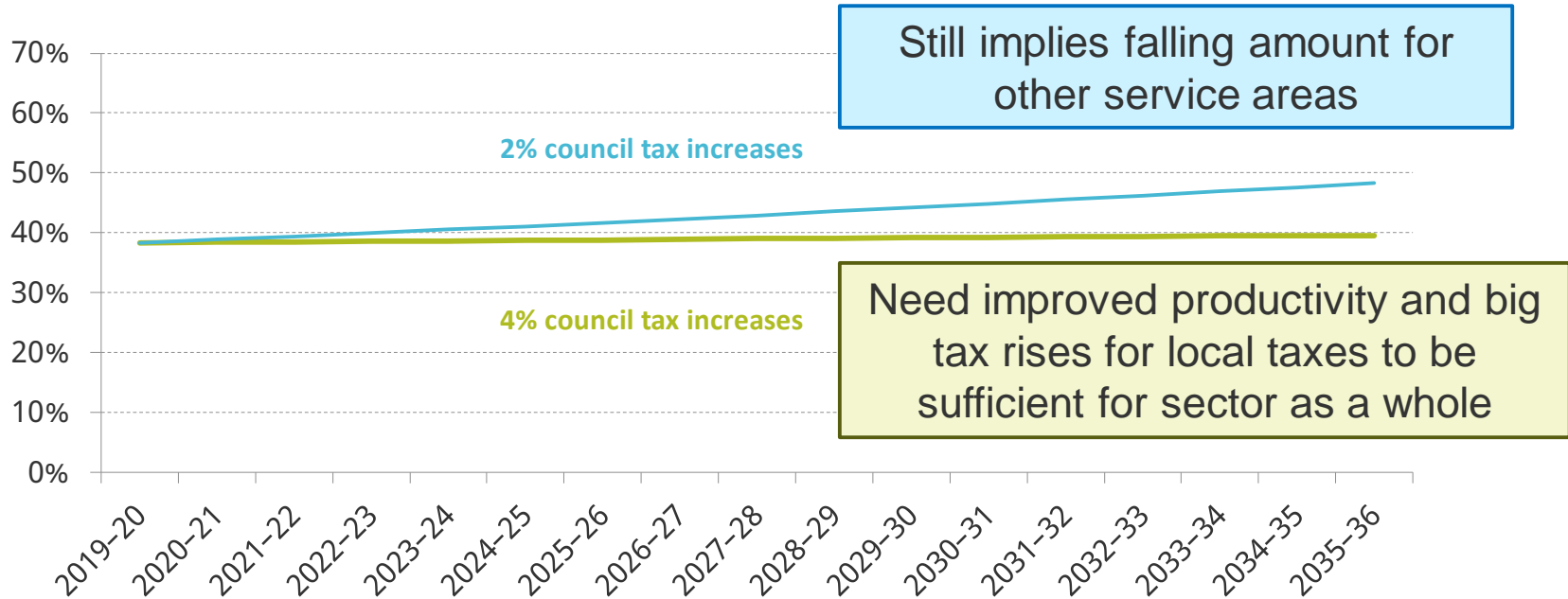
Council tax and business rates will make up vast bulk of funding

Under OBR central projection, adult social care will take up growing share of local taxes...



Note: Assumes adult social care costs increase by 3.4% a year in real terms – in line with OBR central projection

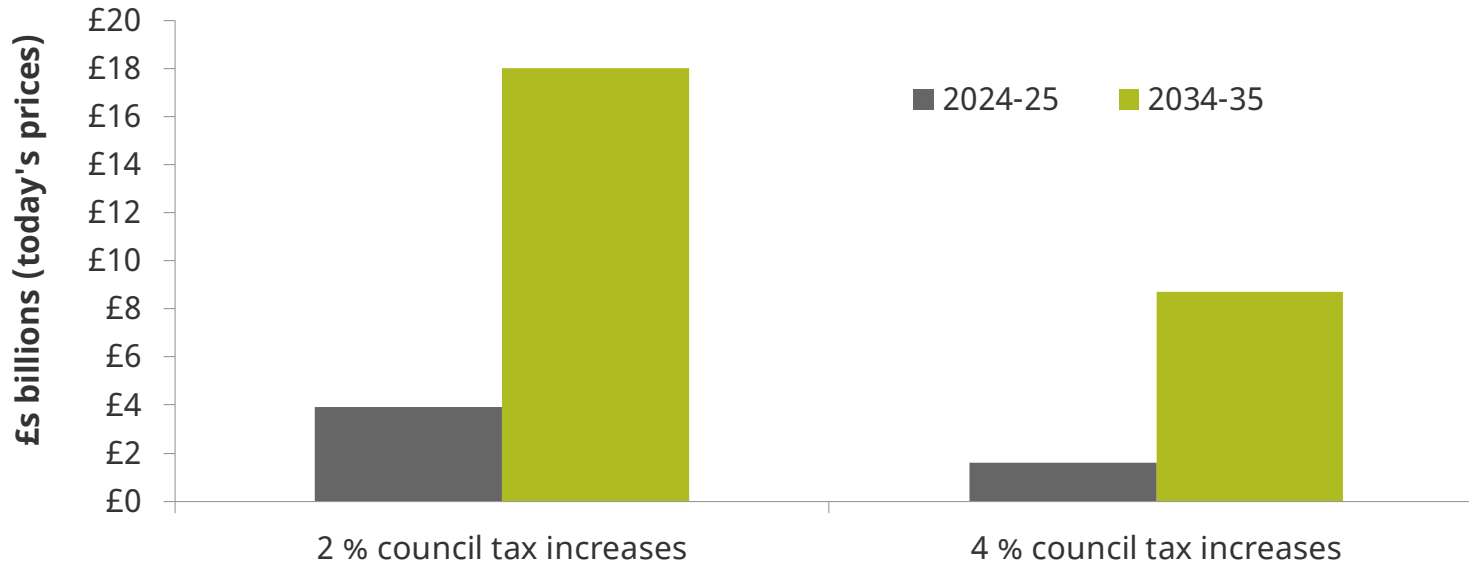
With improved productivity performance, still need significant council tax increases



Note: Assumes adult social care costs increase by 2.0% a year in real terms – average of LGA and PwC projections

Billions in additional grants likely needed to top up existing local taxes

In order to stop spending on other services falling as % national income:



Note: Assumes adult social care costs increase by 3.4% a year in real terms – in line with OBR central projection

Figures are just to maintain current system

More generous system and/or reversing cuts to numbers receiving care would cost billions more on top

Conservative leader has promised a 'clear plan' to 'fix the crisis in social care'

Labour have announced free personal care for the over 65s

- Cost £6 billion in 2020-21 according to Health Foundation & Kings Fund
- At least £8 billion by 2030-31

So what to do?

**Improve productivity
performance significantly
or accept councils can do
(even) less**

**Raise more revenues either
nationally or locally**

Raise nationally if prioritise
redistribution and consistency

Raise locally if prioritise
incentives and discretion

Tax devolution options

100% business rates retention would transfer £6 billion to councils

Administratively straightforward

But narrow and unbuoyant tax base

1p flat-rate local income tax would raise about £6 billion for councils

Administratively more complex – though less so than VAT, Corporation Tax

But a range of desirable properties – buoyancy, accountability, incentives

IFSBriefing

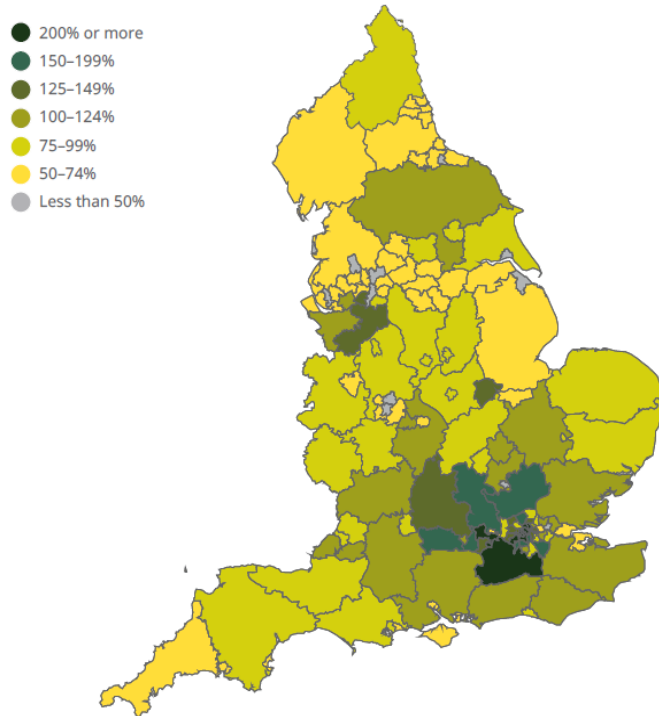
Taking control: which taxes could be devolved to English local government?

In recent years, there has been renewed interest in the question of tax devolution to local government:

- The past decade has seen a number of changes to how local government is funded, including the introduction of business rates retention. Broadly, these changes have focused on giving councils more control over their funding and providing stronger financial incentives to councils to drive local growth and development. Devolution of additional tax revenues and powers could be seen as a natural extension of this agenda.
- After years of cuts, councils in England face serious short-term funding pressures. In the longer term the costs of funding social care are likely to increase faster than the revenues councils receive from council tax and business rates. While these issues could be addressed by using national taxation to increase the grant-funding given to councils, devolution of additional tax revenues and powers could also play a role.

This note summarises a new IFS report on the scope for tax devolution to English local government. It sets out criteria which can be used to assess

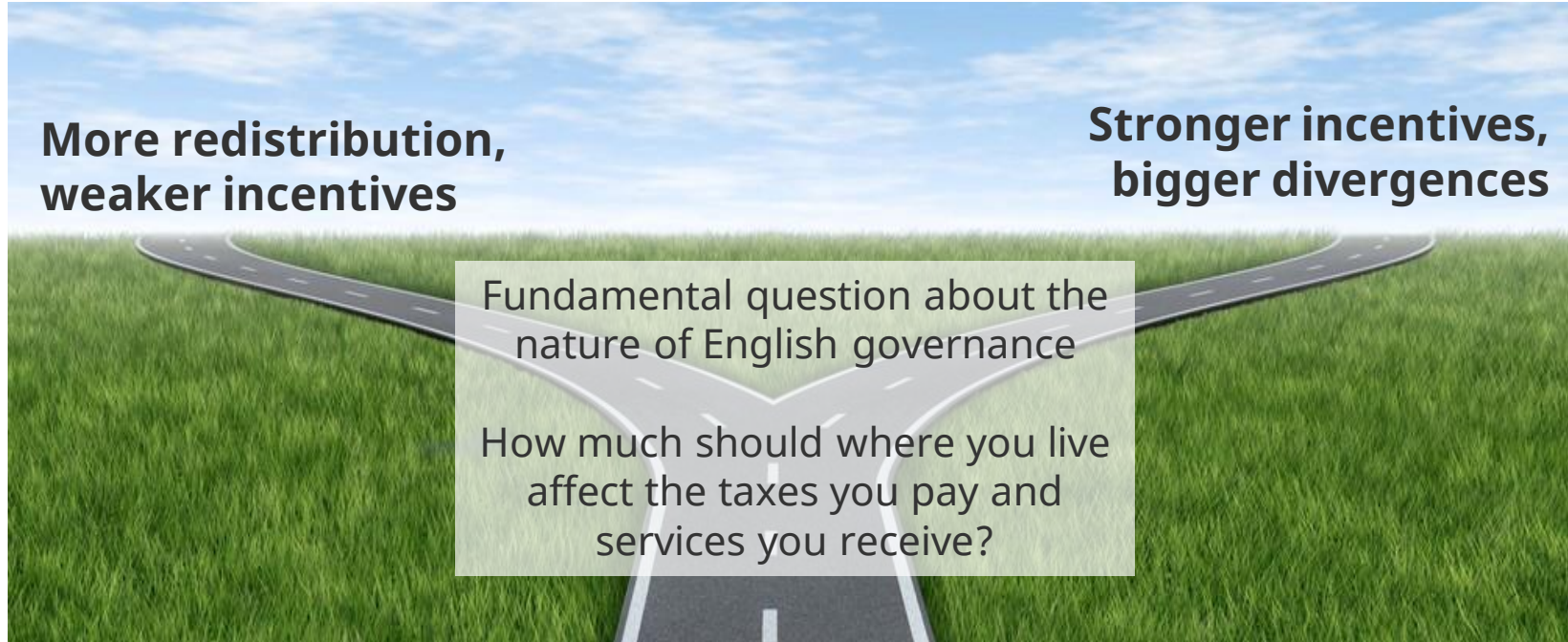
Revenues from a local income tax would be unevenly distributed across England



A degree of redistribution of revenues would be required (like council tax and business rates)...

But how much?

Trade-off between redistribution & incentives



The Business Rates Retention Scheme (BRRS) and New Homes Bonus (NHB)

BRRS and NHB use funding as an incentive

BRRS means councils retain a proportion of real-terms increases and falls in local business rates revenues

Initially 50% retention, but since 2017-18 pilots of 75% and 100% retention

NHB pays additional grant funding to councils for several years for each empty home brought back into use and each new build home in their area

Initially 6 years, now 4 years and only for homes above a 0.3% increase

Reforms to both are planned/considered for 2021-22 – so what about the impact so far?

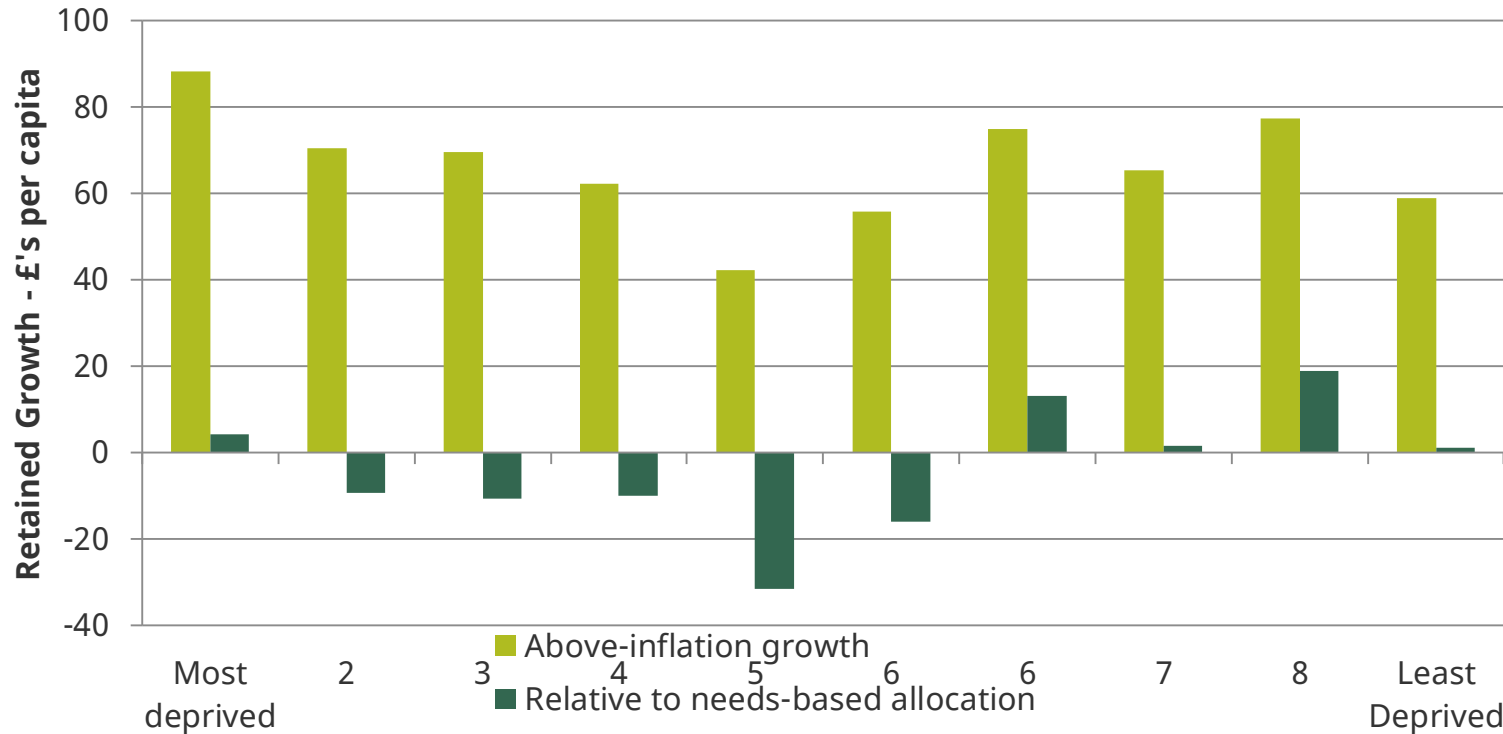
Councils are retaining growing pot of above-inflation growth in rates revenues

£5.9 billion in total since 2013-14, with £1.9 billion in 2019-20

75% and 100% pilots account for £1.8 and £0.7 billion of this, respectively

Retained growth varies significantly across councils

Deprived areas done about as well as less deprived areas, on average



Councils are retaining growing pot of above-inflation growth in rates revenues

£5.9 billion in total since 2013-14, with £1.9 billion in 2019-20

75% and 100% pilots account for £1.8 and £0.7 billion of this, respectively

Retained growth varies significantly across councils

Big differences between lower- and upper-tier councils

District councils' share amounts to 5% of fiscal revenues since 2013-14

Counties' share amounts to 0.6% of fiscal revenues since 2013-14

Reflects counties higher budgets but also districts higher allocations of growth

NHB payments amount to £8.4 billion since 2011-12, but vary significantly across country

Higher in the South than in the North

£207 per person in London, compared to £110 in North West

Higher in less deprived areas than more deprived areas

Driven partly by payments being higher for properties in higher council tax bands

Big differences between lower- and upper-tier councils

District councils' share amounts to 9.3% of spending power

Counties' share amounts to 0.5% of spending power

Reflects fact districts get 80% share of NHB payments

We know very little about impact of schemes on behaviour and outcomes

No evaluation of BRRS

But previous research showed little growth between growth in business rates and local economic growth

Evaluation of NHB focused on council knowledge and attitudes

31% of senior planning officials said led to more strategic approach to housing

Only 6% said almost always taken into account when considering planning applications

Only 16% said funding channelled towards supporting housing development

Big decisions are being taken next year

Reviews of both the BRRS and NHB ongoing

Difficult to make key decisions without evidence on impact of incentives

May be benefits of allocating more business rates growth to upper-tier counties in future

Reduce funding divergences that are arising between lower-tier districts – counties' bigger areas and budgets mean less divergence arises

But transition would be important given some districts' reliance on these revenues for a significant proportion of their budgets.

Summary

Three key trends with implications for the future

- 1. A less redistributive funding system**
- 2. Greater reliance on local revenues**
- 3. Budgets increasingly focused on social care and statutory duties**

What about the outlook for funding?

- Funding for 2020-21 should outpace in-year spending pressures**
- But local taxes unlikely to keep pace with future costs in longer term**

Some areas for further research: council choices; impact of incentives.

English local government funding: trends and challenges in 2019 and beyond

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