

Appendix 7A. Methodological information

COVID-19-related support provided to English councils

Tables 7A.1 and 7A.2 list the COVID-19-related funding support provided to English councils in 2020–21 and 2021–22. (The notes and source to Table 7A.1 are on the next page.)

Table 7A.1. Estimated value of government support for English councils, 2020–21 (£ million)

| Purpose | Funding | Value, £m | Department |
|---|--|---------------|------------|
| General pressures | Unringfenced COVID-19 funding | 4,553 | MHCLG |
| Supporting households | Clinically extremely vulnerable funding | 176 | MHCLG |
| | Winter grant fund | 170 | DWP |
| | Emergency assistance fund | 63 | DEFRA |
| Adult social care | Infection control funding [1] | 1,146 | DHSC |
| | ASC Rapid Testing Fund | 149 | DHSC |
| | ASC workforce capacity funding | 120 | DHSC |
| Public health | Control Outbreak Management Fund [2] | 1,417 | DHSC |
| | Test and Trace service support grant | 300 | DHSC |
| | Compliance and Enforcement Grant | 30 | MHCLG |
| | Community Champions scheme | 22 | MHCLG |
| Active travel | Active travel funding | 107 | DfT |
| Leisure centres | National Leisure Recovery Fund | 98 | DCMS |
| Homelessness | Next Steps Accommodation Programme | 72 | MHCLG |
| | Emergency roughsleepers funding | 3 | MHCLG |
| School transport | Home-to-school transport funding | 60 | DfE |
| Reopening high streets | Reopening High Streets Safely Fund | 50 | MHCLG |
| Total grant funding | | 8,536 | |
| Lost sales, fees and charges income [3] | SFC compensation for losses Apr–Nov | 920 | |
| | Estimated compensation for losses Dec–Mar | 356 | |
| Other forms of government support [4] | Reimbursement of ASC costs from NHS CCGs | 486 | |
| | Recovery of costs through housing benefit / universal credit | 46 | |
| | Coronavirus Job Retention Scheme | 35 | |
| Estimated total value of government support in 2020–21 | | 10,378 | |

Notes and source to Table 7A.1

[1] Includes the total value of infection control funding, including that passed on to social care providers.

[2] Includes funding provided for local and national restrictions.

[3] Compensation for losses April–November is from MHCLG (2021b). Estimates for rest of year are based on the total forecast losses of SFCs income reported in monthly FMI returns covering December–March, relative to forecast losses and compensation payments covering April–November.

[4] Based on figures included in Ogden, Phillips and Spiliotis (2020), which used MHCLG FMI returns from July 2020.

Excludes the value of the Council Tax Hardship Fund (£500 million) which was provided to councils to fund additional discounts on council tax bills, as we assume the associated spending is not reflected as additional expenditure or lost non-tax income in councils' FMI returns.

Source: DfT, 2020; DfE, 2021; MHCLG, 2020a, 2021a, 2021b; Ogden, Phillips and Spiliotis, 2020, table A.2.

Table 7A.2. Estimated value of government support for English councils, 2021–22 (£ million)

| Purpose | Funding | Value (£m) | Department |
|---|--|--------------|------------|
| General pressures | Unringfenced COVID-19 funding | 1,550 | MHCLG |
| | Local council tax support scheme fund [1] | 563 (282) | MHCLG |
| Supporting households | Winter grant fund (extension) | 59 | DWP |
| | COVID Local Support Grant | 200 | DWP |
| | Household Support Fund | 421 | DWP |
| Adult social care | Infection Control and Testing Fund [2] | 592 | DHSC |
| Public health | Contain Outbreak Management Fund | 400 | DHSC |
| School transport | Home-to-school transport funding | 21 | DfE |
| Reopening high streets | Welcome Back Fund | 56 | MHCLG |
| Total grant funding [3] | | 3,581 | |
| Lost sales, fees and charges income | Estimated compensation for losses April–June | 195 | |
| Estimated total value of government support in 2021–22 | | 3,777 | |

[1] This grant from MHCLG is in recognition of the anticipated additional cost of providing discounts on council tax bills to residents, as well as funding an increase in the generosity of council tax support schemes and other support to residents. We include only half of the grant in our measure of funding for in-year pressures, and assume that the rest was needed to meet the additional cost of providing discounts on council tax bills to residents under existing schemes. The latter will effectively support council tax revenues the following year, rather than being available to meet the in-year pressures from additional expenditure or lost non-tax income included in councils' FMI returns.

[2] £401 million (68%) of this funding must be paid over to care providers, with councils having some discretion over how to spend the remainder. The full value of this funding is included in the total, given MHCLG guidance that such spending should be reflected in councils' estimates of additional COVID expenditure.

[3] This does not include £184 million of long-term funding under the Next Steps Accommodation Programme, to provide move-on accommodation and personal support for recovery from roughsleeping, as this is to cover spend through to 2023–24.

Source: DfE, 2021; DWP, 2021a, 2021b; MHCLG, 2021a, 2021b, 2021c.

COVID-related support provided to Welsh councils

Table 7A.3 lists the COVID-19-related funding support provided to Welsh councils in 2020–21.

Table 7A.3. Estimated value of government support for Welsh councils, 2020–21 (£ million)

| Funding | Value (£m) |
|---|------------|
| Hardship Fund – additional expenditure [1] | 306 |
| Hardship Fund – lost income [2] | 146 |
| Test & Trace (local authority element) | 34 |
| Council tax collection grant | 23 |
| Council tax reduction scheme grant | 11 |
| Bus emergency support | 73 |
| Support for social care workforce | 45 |
| Other grants for social services [3] | 9 |
| Other grants [4] | 11 |
| Estimated total value of government support in 2020–21 | 657 |

[1] Excludes payments made to compensate for expenditures relating to education, free school meals or flooding (£89 million).

[2] Excludes payments made to compensate for education-related income losses (£44 million).

[3] Includes: Childcare Provider Grant; Child Development Fund; Promote Family Stability and Relationship Quality; and Early Years Integration Transformation Programme – New Pathfinders.

[4] Includes: Green Recovery Circular Economy Revenue Fund; Local Government Cultural Service Fund; Violence against Women, Domestic Abuse & Sexual Violence Grant – needs-based COVID-19 element; Cultural Resilience Fund; Transforming Towns and COVID recovery revenue funding; Smart Living COVID reconstruction challenges.

Source: Welsh Government, 2021.

Comparing English councils' budgets in 2021–22 with recent years

To identify the expected scale of additional COVID-related spending on each service area, we can compare councils' budgets for 2021–22 (MHCLG, 2021d) with their pre-COVID spending from out-turn data covering 2019–20. Details can be found in Table 7B.1 of the spreadsheet appendix.

Total non-schools service spending in 2021–22 is budgeted to be £4.2 billion (9.5%) higher than in 2019–20. However, some of this growth would have been expected even in the absence of the COVID crisis, reflecting population growth and inflation, as well as pre-existing trends for growing spending on children's and adult social care. In fact, between 2018–19 and 2019–20, over only one year, the same measure of spending grew by £1.8 billion (4.2%). The continuation of similar trends would explain growth between 2019–20 and 2021–22 of 8.5% – most of the increase seen in recent budgets (MHCLG, 2019, 2020b).

The biggest cash increase was budgeted for adult social care spending, which was expected to be £1.7 billion higher than in 2019–20. However, this growth, of 10.2% over two years, is equivalent to the annual percentage growth in spending seen in pre-crisis years, and so may be largely explained by existing trends. Budgeted spending in a number of service areas (notably children’s social care, housing, central services and planning) actually appears to be lower than we might have expected based on pre-crisis trends.

In some service areas, there are significant increases in budgeted spending which are not in line with pre-existing trends, which are more likely to reflect additional COVID spending. Councils are budgeting to spend £450 million more on public health in 2021–22 than in 2019–20, an increase of 13.9%, whereas prior to the COVID-19 pandemic, council spending on public health had been falling. This large increase is still less than the £561 million of forecast additional spending for just the first half of the year in councils’ FMI returns though. This can only be reconciled if non-COVID public health spending has continued to decline, and very little COVID-19-related spending was expected in the second half of the year.

The most notable difference between councils’ 2021–22 budgets and those of earlier years is the high value of spending (£879 million) recorded against ‘other services’, now accounting for 1.8% of all councils’ budgeted non-education service spending. In contrast, it was less than £4 million in 2019–20 and never exceeded £70 million in the preceding four years. This sudden, high level of budgeted spend is despite the clear expectation from MHCLG and CIPFA that this budget line will only be used in exceptional circumstances where councils cannot identify appropriate services to which to allocate or apportion spending. This suggests councils may have recorded some expected COVID spending in this ‘other’ category, given uncertainty about which of their services would be most likely to require additional funding, or difficulty in categorising spending into one of the usual categories.

Since the publication of councils’ budgets, MHCLG has published out-turn data on expenditure during the first quarter (April–June) of 2021–22 (MHCLG, 2021e). This is on a different basis from budget and out-turn data covering the whole year and, unlike our main analysis, includes education spending, and spending by other authority types (police, fire and combined authorities). While not directly comparable, this suggests that councils have revised up their estimates of service expenditure across the whole of 2021–22 by 0.4% between budgets and the submission of these quarterly returns.

Medium-term projections of English councils’ spending requirements

Our approach to projecting councils’ spending and revenues into the medium term broadly follows that used in an earlier report (Ogden, Phillips and Spiliotis, 2020), using more recent data where

available and updating some of our assumptions and methods. Our methodology is outlined in broad terms below; additional details are available upon request.

Population. Throughout our analysis, we use the ONS's latest mid-year population estimates, taking the figures for June 2019 and June 2020 for the financial years 2019–20 and 2020–21 respectively (ONS, 2021). In subsequent years, we use the ONS's 2018-based population projections (ONS, 2020a), but adjust the figures for each local authority in proportion to the difference between the estimated population in 2020 according to the projections and the most recent estimates. This avoids a discontinuity in the year we move from using actual to projected figures.

Baseline spending. In modelling demand for council services in England, we use 2019–20 out-turn data as our baseline, and consider net revenue expenditure on services – spending after councils have netted off any sales, fees and charges (SFCs) and other income. Spending on adult and children's social care is taken from councils' out-turns. The value of spending on 'other council services' is our measure of revenues less the values of spending on adult and children's social care in 2019–20. This effectively measures the value of spending on all other items which could be funded from our measure of available revenues in 2019–20, so that our spending projections consider the cost of providing services at the same level as councils were funded to provide in 2019–20.

Better Care Fund. We do not include spending funded by the Better Care Fund – a pooled budget between councils and NHS Clinical Commissioning Groups (CCGs) – in our measure of adult social care spending. This funding is treated as 'other income' rather than grant funding, and is hence netted off the measure of net expenditure used in our projections. This means that we implicitly assume that the funding councils receive from the Better Care Fund grows in line with our projections of the nominal cost of maintaining adult social care service provision.

Demand for most services. We assume that demand for most council services rises in line with projected growth in the resident population, which averages 0.5% a year over the period. This is based on ONS population estimates and projections, adjusted as described above.

Adult social care demand. We assume demand for adult social care services grows by 2.2% a year after 2019–20. This draws on a model developed by the Personal Social Services Research Unit (Wittenberg, Hu and Hancock, 2018), which considers the impact of demographics and other drivers on demand for long-term care for older people and younger adults. This relates to current patterns of care and the current funding system, and does not account for the impact of potential funding reforms, rising expectations or other behavioural changes.

Children’s social care demand. It is unclear whether especially rapid growth in recent years in the numbers of children in foster or residential care will continue. The Institute for Government (2019) has estimated demand may increase by 1.44% a year, based on a return to longer-run trends in fostering and residential care since 2007–08 and other social care services since 2012–13. A continuation of more recent (2013–14 to 2018–19) trends suggests demand growth of 2.6% per year. Our central assumption is the average of these two estimates – growth of just over 2.0% a year.

Public service productivity. We assume there is no growth in productivity, continuing recent trends. ONS analysis suggests the productivity of publicly funded adult social care services and children’s social care services has been effectively unchanged for the last decade (ONS, 2020b, 2020c). This means that increases in the price of inputs feed through in full into increases in the cost of service delivery.

Price of inputs. To estimate changes in the price of inputs to council services, we take a weighted average of the GDP deflator (a measure of general inflation in the economy) and assumed earnings growth. We apply an 85% weighting to earnings in our measure of input prices. This is higher than councils’ own labour costs, in order to capture changes in labour provided by suppliers. Earnings are assumed to rise in line with the OBR’s post-COVID forecast for average earnings (OBR, 2021). Together, these imply average annual increases in costs of 2.1% each year, and account for £5.6 billion (55%) of the increase in spending required by 2024–25.

This approach follows recent IFS work on school spending, which constructed a schools-specific inflation measure (Sibieta, 2021). While the GDP deflator captures economy-wide inflation, it may under- or over-estimate the growth in specific costs faced by schools if schools-specific costs are evolving at a different rate from overall inflation, especially in the short run. The same can be said to hold for councils.

National Living Wage implementation. We estimate the additional impact of planned increases in the National Living Wage (NLW) to £10.45 an hour by 2025 on the pay of adult social care workers. Skills for Care (2019) estimates that 28% of adult social care workers were paid the NLW and 60% were paid within 50p of the NLW in March 2019 (when the NLW was £7.83). In addition, it estimates that the 6.2% increase in the NLW in April 2020 would increase the wage bills of care providers by £375–£400 million. We assume two-thirds of the work of care providers consists of council-funded care, and estimate that each 1% increase in the NLW will increase the labour costs that are passed on to councils in the form of higher fees by £50 million. This figure incorporates an allowance for additional employer costs such as National Insurance and pension contributions at a rate of 20%, and for increases in the NLW level over time.

We assume that above-inflation increases in staff pay do not translate into increases in the quantity or quality of labour inputs to council services.

Adult social care reform. The government has not yet published any estimates of the costs for councils of the announced reforms in the medium term. We assume that any additional costs for councils relating to implementing the reforms up to 2024–25 are exactly covered by new government funding. This effectively assumes that any new funding from the ‘health and social care levy’ is needed by councils to do new things, meaning it is not available to meet existing cost and demand pressures, but also that the funding provided will be sufficient to fund any reforms.

National Insurance contributions. The recently announced increases in employer and employee National Insurance contributions (and later the ‘health and social care levy’) will also increase labour costs for councils. We assume the direct cost of this will be fully met by government, as suggested by the government’s plan (HM Government, 2021, p. 29), so have not included this as a spending pressure. However, there may still be some indirect impact through councils’ suppliers, who will see their labour costs rise, and this is not included in our estimates either. Initial estimates from the Local Government Association (2021) suggest this could add £100 million to the cost of commissioned services in adult social care, if providers passed on the full cost in the form of higher fees, and considerably more across other council services.

Persistence of COVID pressures. In our main scenario, we assume additional expenditure and non-tax income losses in the second half of 2021–22 persist at 50% of the level councils forecast for July to September 2021–22 in their latest FMI returns, implying total COVID pressures in 2021–22 of £4.5 billion. In future years, we assume that additional spending on adult social care and public health, and losses of SFCs and commercial income, persist as some declining proportion of the total estimated for 2021–22. As shown in Table 7A.4, we assume income losses are more persistent. We assume there are no losses of ‘other income’ and no additional expenditure on other services after 2021–22.

Table 7A.4. Assumptions on persistence of COVID pressures in future years in main and pessimistic scenarios for spending requirements

| Scenario | | Estimated value (£m) | Assumed pressure as a % of 2021–22 value | | |
|-------------|-------------------------------------|----------------------|--|---------|---------|
| | | 2021–22 | 2022–23 | 2023–24 | 2024–25 |
| Main | Adult social care and public health | 1,844 | 50% | 25% | 0% |
| | SFCs and commercial income losses | 1,146 | 50% | 33% | 17% |
| Pessimistic | Adult social care and public health | 2,358 | 75% | 50% | 25% |
| | SFCs and commercial income losses | 1,489 | 75% | 50% | 25% |

Pessimistic scenario. We also consider a more ‘pessimistic’ scenario, where councils’ spending requirements are higher, to illustrate the sensitivity of our estimates to the assumptions made. In particular, this assumes:

- the productivity of adult social care services declines by 0.5% a year, instead of remaining flat;
- demand for children’s social care services rises more quickly, by 2.6% each year, in line with more recent trends;
- the financial pressures from COVID-19 are greater in the second half of 2021–22, persisting at 100% of the level councils forecast for July to September 2021–22 in their latest FMI returns (instead of 50%). This implies total COVID pressures in 2021–22 of £5.8 billion. Income losses are then assumed to be both higher initially, and more persistent as a proportion of estimated losses in 2021–22, as shown in Table 7A.4.

Medium-term projections of English councils’ available revenues

Business rates. Our measure of ‘retained rates revenues’ includes both the share of business rates revenues retained by councils (excluding any precepts for other authorities such as fire and police services, combined authorities or the Greater London Authority) and the value of section 31 grants paid to councils to compensate for discounts introduced by central government. These revenues are assumed to increase between 2021–22 and 2022–23 in line with forecast CPI (of 1.9%) and to grow in subsequent years in line with the OBR’s forecast for business rates retained by local authorities (OBR, 2021). We then add on the value of tariffs and top-ups through the business rates system, which are uprated each year in line with forecast CPI.

Council tax. Our measure of council tax revenues equals the council tax requirement up to 2021–22, excluding any precepts for other authorities such as fire and police services, combined authorities or the Greater London Authority, and excluding any parish precepts. Council tax revenues after 2021–22 are modelled at the council level, and aggregated up to give estimates for all councils in England.

Council tax base. In projecting revenues forwards, we assume the council tax base (which depends on the stock of domestic properties, as well as the value of local council tax discounts) grows after 2021–22 in line with the OBR’s latest post-COVID forecast. This is for growth of 4.0% in total between 2021–22 and 2024–25 (OBR, 2021).

Our council-level projections assume that this forecast growth each year (for England as a whole) is apportioned between councils in proportion to their contribution to national council tax base growth between 2016–17 and 2020–21. This in effect assumes that those areas that saw faster house-building or declines in council tax support claims over those five years continue to benefit disproportionately from growth in the council tax base in subsequent years.

Average council tax bills. We calculate the average annual council tax bill in 2021–22 (£1,428) by dividing the total council tax requirement (expected revenues) by the number of chargeable dwellings. This measures the cash value of the bill facing the ‘average’ billpayer, accounting for the distribution of properties across different tax bands and local council tax support schemes, and is lower than the average council tax bill for a band D property in the same year (£1,898). In describing the council tax rises needed between 2021–22 and 2024–25, we apply the year-on-year percentage increase in national council tax levels required in each of the three years, to approximate the total increase in the average council tax bill needed by 2024–25. For historical council tax bill levels, see Figure 7B.9 in Appendix 7B.

Collection Fund deficits. After projecting forwards the council tax base and changes in bills, and business rates revenues, we account for any deficits or surpluses on the Collection Fund. These are taken from councils’ budgets in 2021–22, and from the spreading of the ‘exceptional balance’ (resulting from COVID losses) in 2022–23 and 2023–24, accounting for the local tax income guarantee.

COVID impacts on local taxes. The impact of COVID on councils’ tax revenues is reflected in our analysis in three ways. First, the losses of local tax revenues in 2020–21 create a deficit on the Collection Fund, which would usually impact councils’ main budgets the following financial year. The government is compensating councils for 75% of these losses (reducing the deficit created) and is allowing the remaining deficit to be spread over the next three financial years. Together, this limits the reduction in the resources available to councils to only £105 million in each of the years 2022–23 and 2023–24. Second, the economic impact of the crisis means more households will be eligible for discounts on their council tax bills, reducing the effective council tax base in 2021–22 and future years. Finally, the business rates tax base (which ultimately reflects market rents on commercial property) is likely to be less buoyant. This is reflected in lower retained business rates revenues in 2021–22, which are then projected forwards from this lower level.

COVID funding. Councils are expected to receive COVID-related funding in 2020–21 and 2021–22, estimated as described above. We assume that none of this funding continues after March 2022, with any remaining COVID pressures expected to be financed from councils’ other revenues.

Other sources of income. We do not explicitly model income from SFCs, which are already netted off in the ‘net expenditure’ figures which form the basis of our spending needs projections. This in effect assumes that such income continues to fund the same proportion of gross expenditure for each service area in future years (although we include some persistent hit to this source of income as part of our estimate of COVID pressures). We also exclude income from commercial ventures and other sources (including the Better Care Fund) from our measure

of council revenues and exclude any spending funded by this income in 2019–20. This means that, in subsequent years, we implicitly assume that any change in such income is fully reflected in changes in that spending.

Government grants. We include grants that fund spending by councils on their non-education services, as detailed in Table 7A.5.

Table 7A.5. Grants included in our measure of government grant funding in 2021–22

| Grant | Value (£ million) |
|--|-------------------|
| Social Care Grant and Improved Better Care Fund | 3,707 |
| Public Health Grant | 3,064 |
| Revenue Support Grant | 1,453 |
| Private Finance Initiative | 1,157 |
| New Homes Bonus | 622 |
| Flexible Homelessness Support Grant | 282 |
| Former Independent Living Fund Recipient Grant | 142 |
| Lower Tier Services Grant | 111 |
| Rural Services Delivery | 84 |
| Localised Council Tax Support Administration Subsidy Grant | 71 |
| Total government grant funding in 2021–22 | 10,692 |

Source: Core spending power: final Local Government Finance Settlement 2021 to 2022; revenue account (RA) budget 2021 to 2022; specific and special revenue grants (SG) budget 2021 to 2022; final allocations of Localised Council Tax Support Administration Subsidy Grant 2021 to 2022.

The Lower Tier Services Grant was introduced in 2021–22 and intended to be temporary. The government has recently consulted on the continuation of the New Homes Bonus from 2022–23 onwards. Under the current system, councils would expect to receive legacy payments worth £225 million in 2022–23, relating to activities in 2019–20, although these payments have also not been confirmed.

We exclude grants for the administration of housing benefit (£163 million in 2021–22) and ‘other grants within AEF’ (£1,553 million) from our grants figure due to changes in the responsibilities associated with these grants over time. We also exclude grants within Aggregate External Finance which are ringfenced for education services (Dedicated Schools Grant; Pupil Premium Grant; universal infant free school meals) as councils do not have meaningful control over this expenditure.

Medium-term projections of Welsh councils' spending requirements

Our approach to projecting Welsh councils' spending and revenues builds on Siôn and Ifan (2021), but mirrors the assumptions used for England wherever possible. Where the approach differs between England and Wales, these differences are explained below.

Adult social care demand. We assume demand for adult social care services grows by 2.0% a year after 2019–20. This figure is derived from the same Personal Social Services Research Unit (Wittenberg, Hu and Hancock, 2018) model used for England, adjusted to account for relative differences in the projected growth of different age cohorts in Wales. This does not account for the impact of potential funding reforms, rising expectations or other behavioural changes.

Adult social care reform. The Welsh Government has not yet set out its plans for adult social care reform. Based on plans in England – where at least £5.4 billion of additional funding has been promised for social care over the next three years – we assume that the Welsh Government decides to pass on a similar proportion of the levy funding to local authorities. This implies £106 million of additional funding for Welsh councils each year from 2022–23 onwards. However, given that an announcement on proposed reforms is likely to be imminent, we further assume that this funding is met by new responsibilities and therefore cannot be used to fund existing cost and demand pressures.

Children's social care demand. Over the last three years alone, spending on children's and families' services has increased by 24.0% in nominal terms. This has been driven by an increase in the number of children looked after by local authorities. Taking the number of children in care as a proxy for children's social care demand, we assume that demand pressures in this area grow by 3.8% each year – the mid-point between the most recent five-year average to 2020 (5.1%) and the long-run 10-year average to 2015 (2.5%).

National Living Wage implementation. We estimate the additional impact of planned increases in the National Living Wage (NLW) on care workers by taking a population share of the Skills for Care estimate for England (Skills for Care, 2019). By doing so, we implicitly assume that the relative sizes of the care workforce and the pay distribution in England and Wales are broadly comparable. We do not incorporate the impact of NLW increases on other council workers in our model. Data on the local authority workforce suggest that the direct costs of raising the wages of those at the bottom of the earnings distribution are negligible and maintaining pay differentials is a policy choice, even if this is not something that can be avoided in practice.

Persistence of COVID pressures. Our assumptions on the persistence of COVID pressures faced by Welsh councils are the same as in England, with only a few exceptions. Due to the unique funding arrangements for the Test, Trace and Protect (TTP) programme in Wales – where local

authorities are paid in arrears by local health boards for any additional costs incurred – we assume that additional public health and TTP costs fall on local health boards rather than councils.

In future years, we assume that COVID pressures persist at some proportion of the estimated amount for 2021–22. Unlike England, there are no forecasts of additional costs and income losses incurred by councils in the second quarter of 2021–22. Therefore, we assume that the Hardship Fund allocation for the first six months of the financial year accurately reflects the costs incurred by councils and that the distribution of claims across service areas mirrors 2020–21. For the second half of 2021–22, we assume that additional costs and income losses persist at 50% of this level.

Schools spending. Schools and non-school education expenditure are excluded from most of the analysis to ensure consistent treatment with councils in England. Where the spending requirements are said to include education services, we assume that demand for schools grows in line with projections of the number of full-time-equivalent pupils in local-authority-maintained schools. Non-teacher staff costs are assumed to grow in line with the OBR’s forecast for average earnings (OBR, 2021).

Data for the 2019–20 academic year are used as a baseline to project the pay bill for teachers. These data are derived from evidence submitted by the Welsh Government to the Welsh Pay Review Body in 2020. Future growth in teachers’ pay is calculated using the same methodology outlined in Sibieta (2020), which assumes that starting salaries for teachers reach £30,000 by September 2022, as per the UK government’s commitment in England. However, the indirect effect of the public sector pay freeze in 2021–22 is likely to have delayed this objective. We therefore assume that this target will now be reached by 2023–24.

Pay for other teachers, including teachers on the upper pay range, teachers on leadership scales and unqualified teachers, is assumed to grow in line with OBR forecasts for average earnings in future years. Our projections are also adjusted to account for the split of each academic year across multiple financial years.

Medium-term projections of Welsh councils’ available revenues

Council tax. Our measure of council tax revenues equals the council tax requirement up to 2021–22, excluding any precepts for police, and fire and rescue authorities. In projecting revenues forwards, we assume the council tax base grows in line with the latest OBR forecast. This implies total growth of 2.4% between 2021–22 and 2024–25 (OBR, 2021).

Council tax community precepts. The measure of council tax requirement includes revenues raised through community precepts. To ensure consistent treatment with English councils, we deduct this element from Welsh council revenues by assuming that the proportion of council tax raised through the community precept remains fixed at 3.2%, the proportion in 2019–20.

Council tax reduction scheme. Welsh councils are required to provide tax relief to low-income households who qualify under nationally prescribed eligibility criteria. The cost of operating the Council Tax Reduction Scheme (CTRS) is largely included within the Revenue Support Grant. To avoid double-counting, the value of discounts offered through the CTRS is deducted from the amount of council tax budgeted for collection. To do this, we assume that the value of the CTRS as a proportion of the amount to be collected is fixed at its 2019–20 level of 16%.

Discretionary non-domestic rates relief. Local authorities can opt to provide discretionary non-domestic rates (NDR) relief to businesses. Typically, the cost of providing this tax relief is offset against NDR revenue rather than treated as council expenditure. We assume that the value of discretionary reliefs remains fixed at its 2021–22 level (£5 million) in future years.

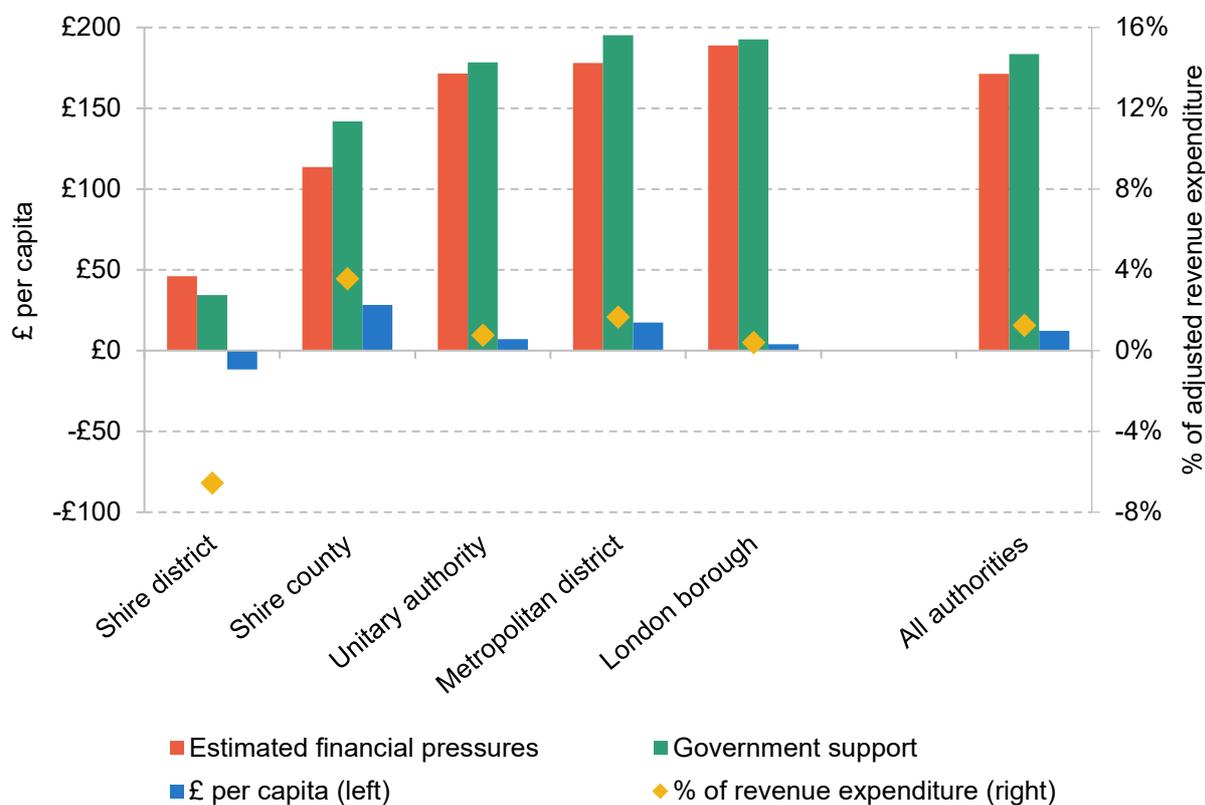
Non-domestic (business) rates. Unlike England, business rates are not partially retained by Welsh councils. Non-domestic rates are collected by local authorities, pooled by the Welsh Government, and the revenues are then redistributed alongside the Revenue Support Grant. Projections of NDR revenues are taken from the OBR's latest forecast (OBR, 2021).

Schools consequentials. UK government spending on schools in England triggers Barnett consequentials for the Welsh Government. The multi-year plans for school spending in England cumulatively imply £586 million in additional funding for the Welsh Government between 2019–20 and 2024–25, and we assume that this is passed on to Welsh local authorities. Over the same period, we project that the spending requirement for Welsh schools will only increase by about half this amount (£275 million). In the medium-term section in Section 7.3 of the chapter, we model a scenario where councils decide to pass on the consequentials to Welsh schools in full (e.g. to catch up on lost learning time because of the pandemic), and a separate scenario where councils can use the funding to plug gaps in other services.

Welsh Government grants. The values of the Revenue Support Grant and specific grants for 2021–22 are presented as set out in the Final Local Government Settlement (Welsh Government, 2021). In future years, we assume grants to local authorities move in line with the Welsh Government's projected funding for services other than health, as the Welsh Government typically pledges to pass on funding received as a result of increases in English health spending to the Welsh NHS. Housing benefit and the associated administration grants paid by the Department for Work and Pensions are excluded from this analysis.

Appendix 7B. Further analysis

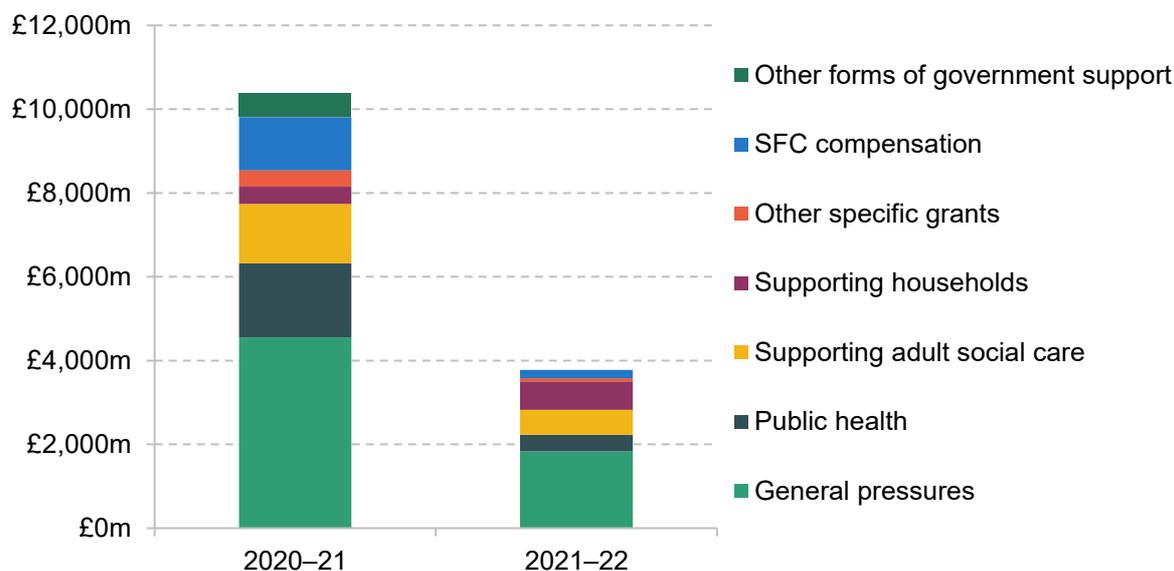
Figure 7B.1. Comparison of estimated financial pressures and government financial support in 2020–21, by council type



Note: Financial pressures include additional expenditure and non-tax income losses, but exclude losses from local taxes. Government support for local tax losses is also excluded. Adjusted revenue expenditure is a measure of councils' pre-COVID budgeted spending, as described in Ogden and Phillips (2020).

Source: Round 12 of MHCLG (2021a); ONS (2020a, 2021). For estimates of government support, see sources for Table 7.1.

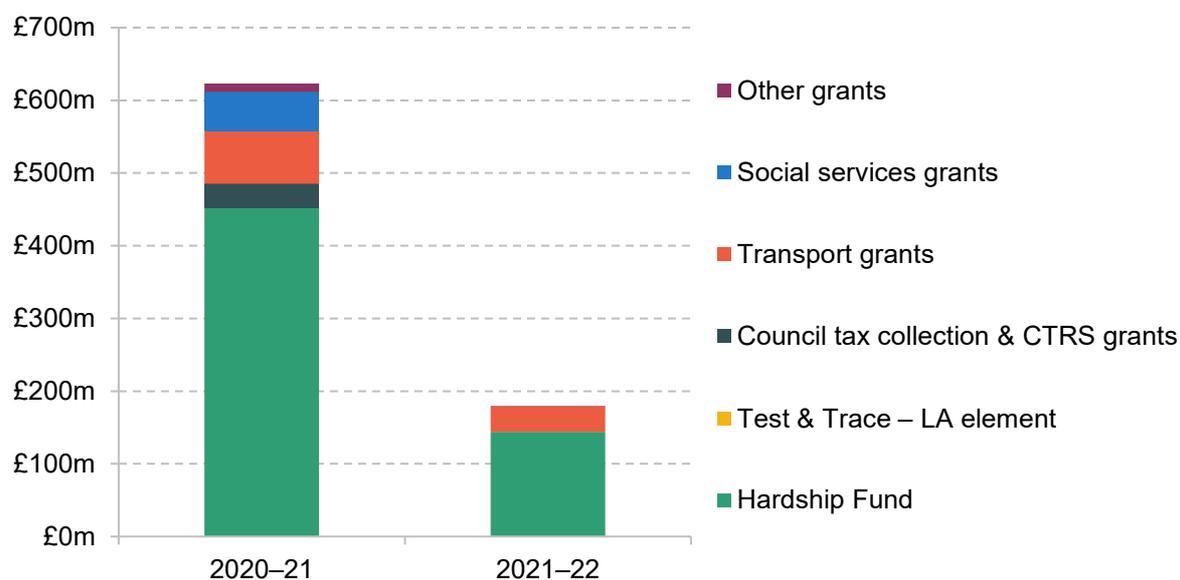
Figure 7B.2. Additional COVID-related funding provided to councils in England each financial year, by purpose



Note: Funding for 'general pressures' in 2021-22 includes half of the value of the local council tax support scheme funding. SFC is sales, fees and charges.

Source: See sources to Table 7.1.

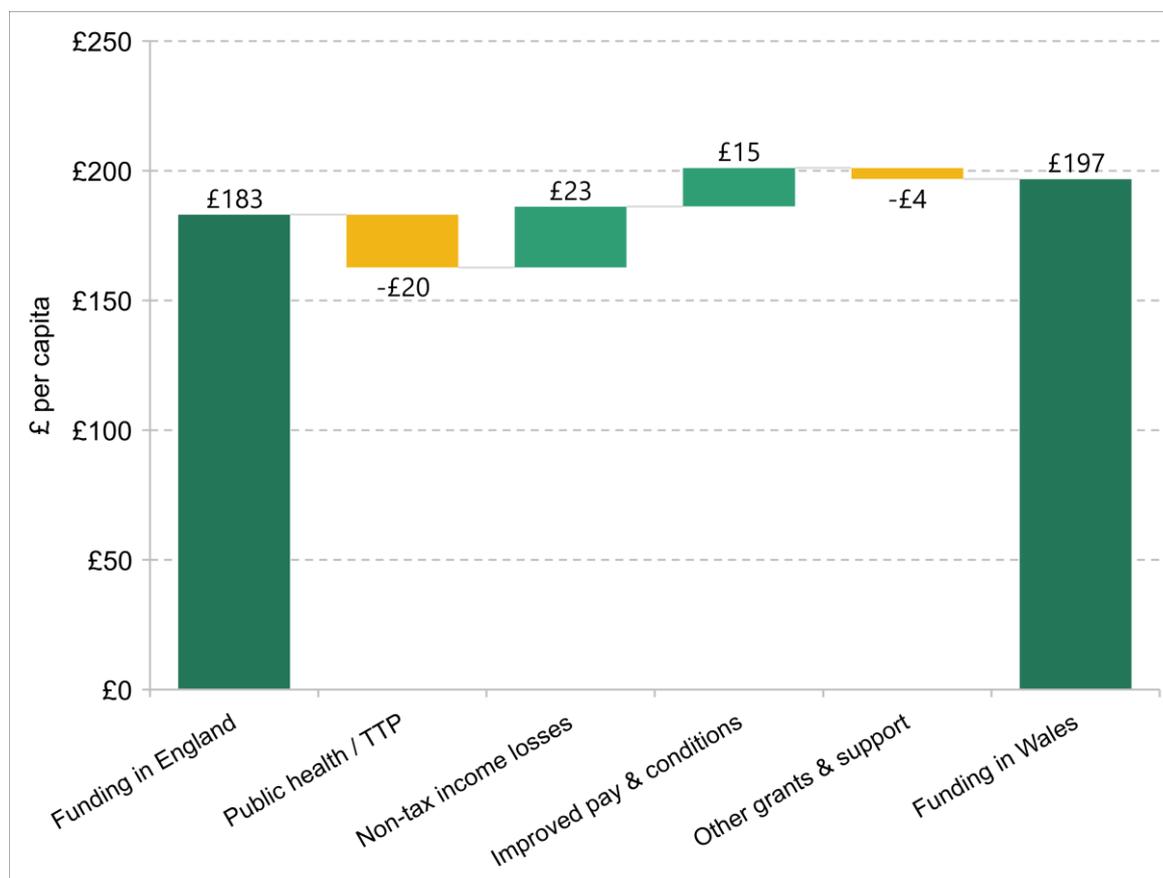
Figure 7B.3. Additional COVID-related funding provided to councils in Wales each financial year, by purpose



Note: The full Hardship Fund allocation for 2021-22 is £206 million. This represents £160 million for non-education services if the distribution of claims is the same as in 2020-21. The amount allocated to Welsh councils in 2021-22 for testing and tracing is unavailable. CTRS is Council Tax Reduction Scheme. LA is local authority.

Source: Welsh Government, 2021; Audit Wales, 2021.

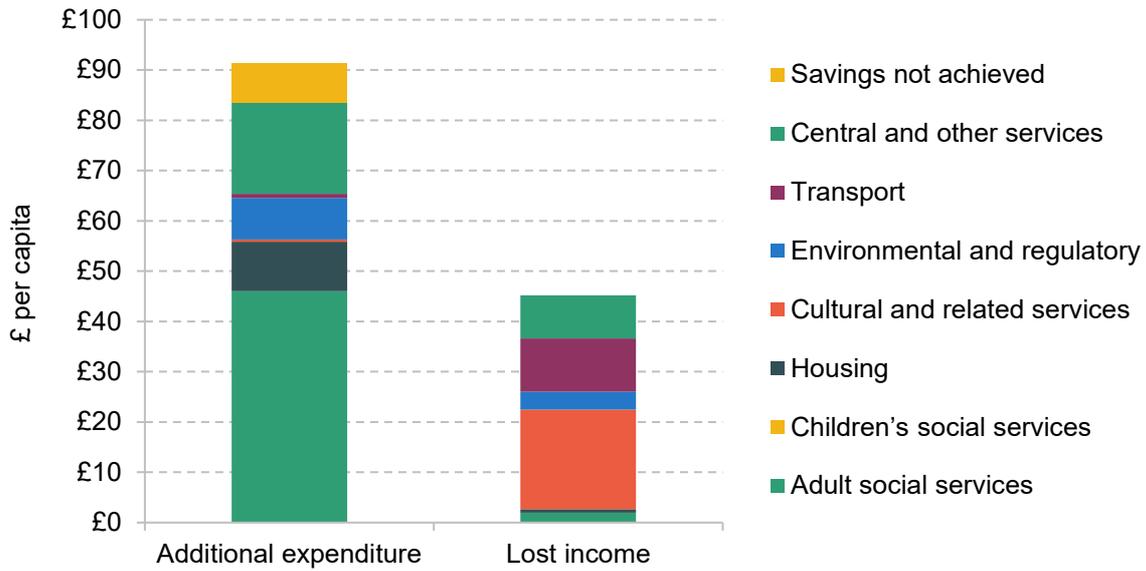
Figure 7B.4. Comparison of additional COVID-related funding provided to councils in England and Wales, 2020–21



Note: Excludes funding for council tax collection deficits & council tax benefit in England and Wales. Excludes free school meals & other education-related funding in Wales. TTP is Test, Trace & Protect.

Source: Welsh Government, 2021; Audit Wales, 2021; ONS, 2021. See sources to Table 7.1 for England.

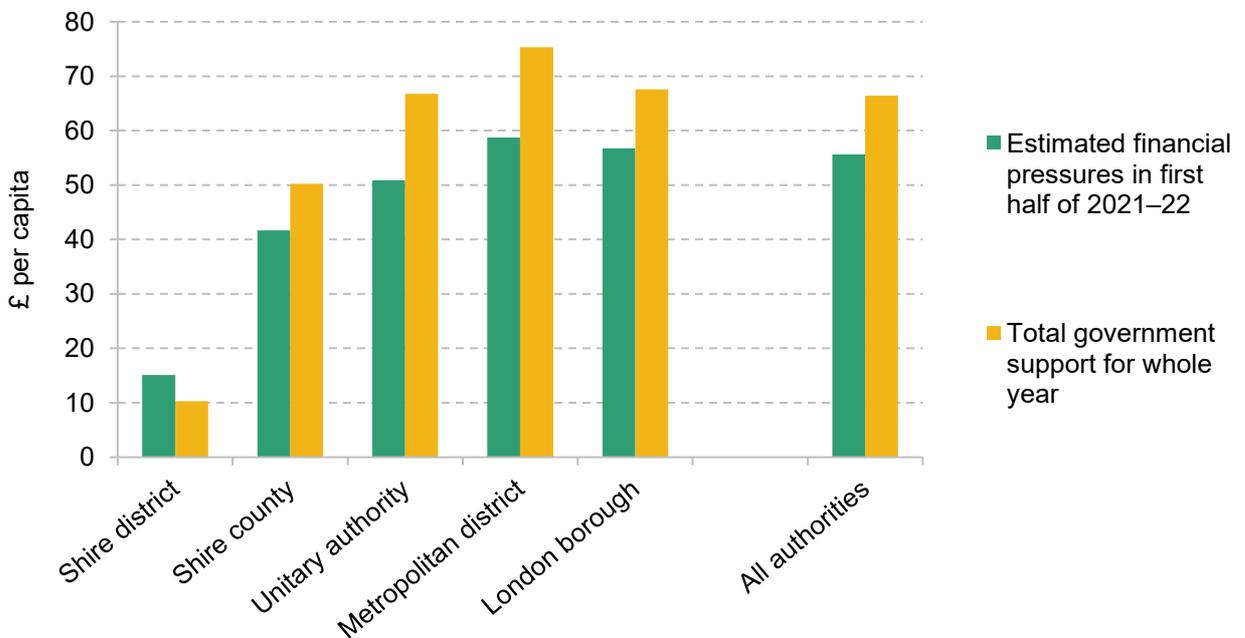
Figure 7B.5. Payments made to Welsh councils through the Single Hardship Fund, 2020–21



Note: Includes only payments made through the Single Hardship Fund, representing nearly 70% of all additional funding provided to Welsh councils.

Source: Welsh Government, 2021; ONS, 2021.

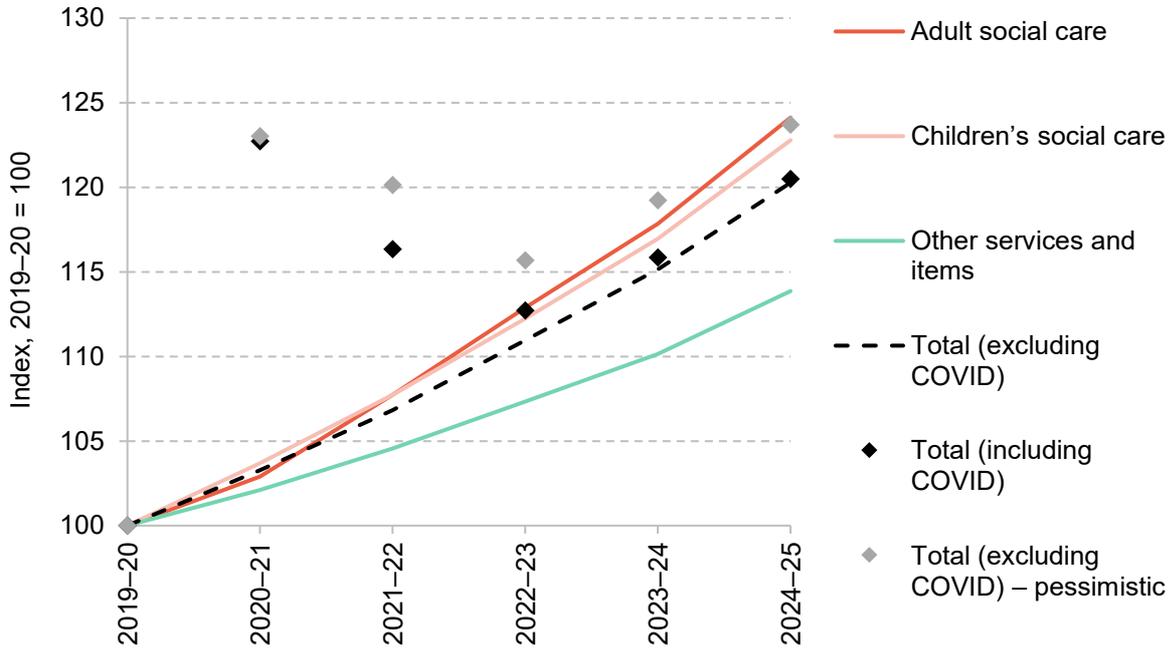
Figure 7B.6. Comparison of estimated COVID pressures in first half of 2021–22, and government financial support for the whole year, by council type, England



Note: Population in 2021–22 is mid-2020 population estimate, increased by the forecast growth in population between 2020 and 2021 from ONS 2018-based population projections.

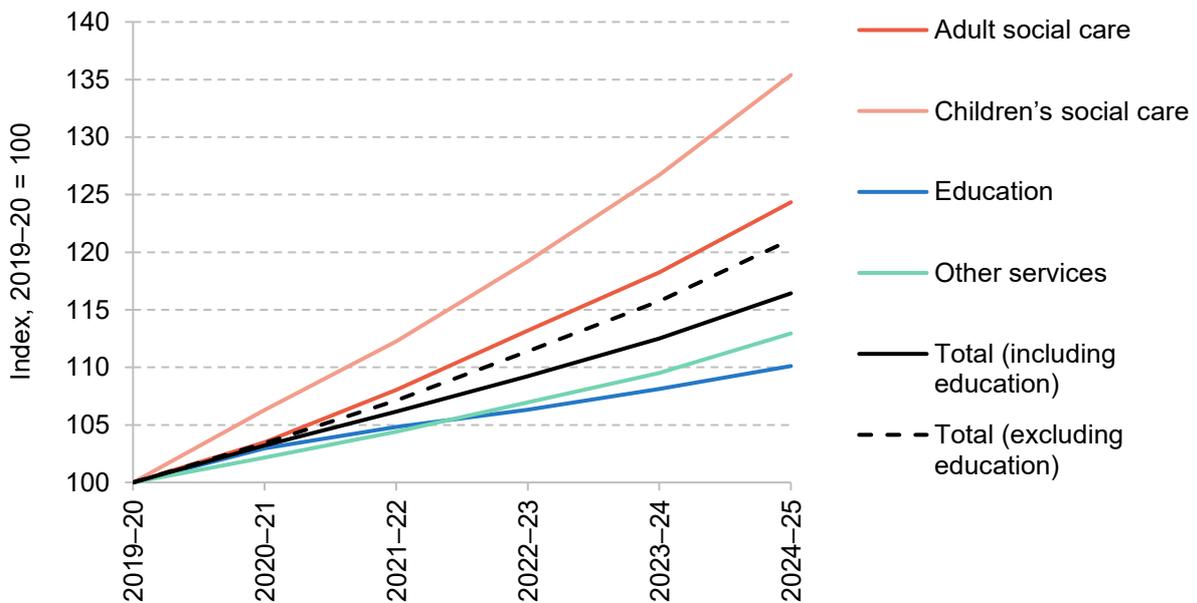
Source: Round 13 of MHCLG (2021a); ONS (2020a, 2021). For estimates of government support, see sources for Table 7.2.

Figure 7B.7. Projected growth in English councils' spending requirements (2019–20 = 100)



Note: Total spending requirements are shown excluding COVID pressures (dashed line) and including COVID pressures (markers only). Both include pressures on adult social care, children's social care and other spending, and the impact of the implementation of the National Living Wage.

Figure 7B.8. Projected growth in Welsh councils' non-COVID spending requirement (2019–20 = 100)



Note: Excludes any COVID-related spending requirements.

Source: Authors' calculations. See Online Appendix 7A for details of methodology.

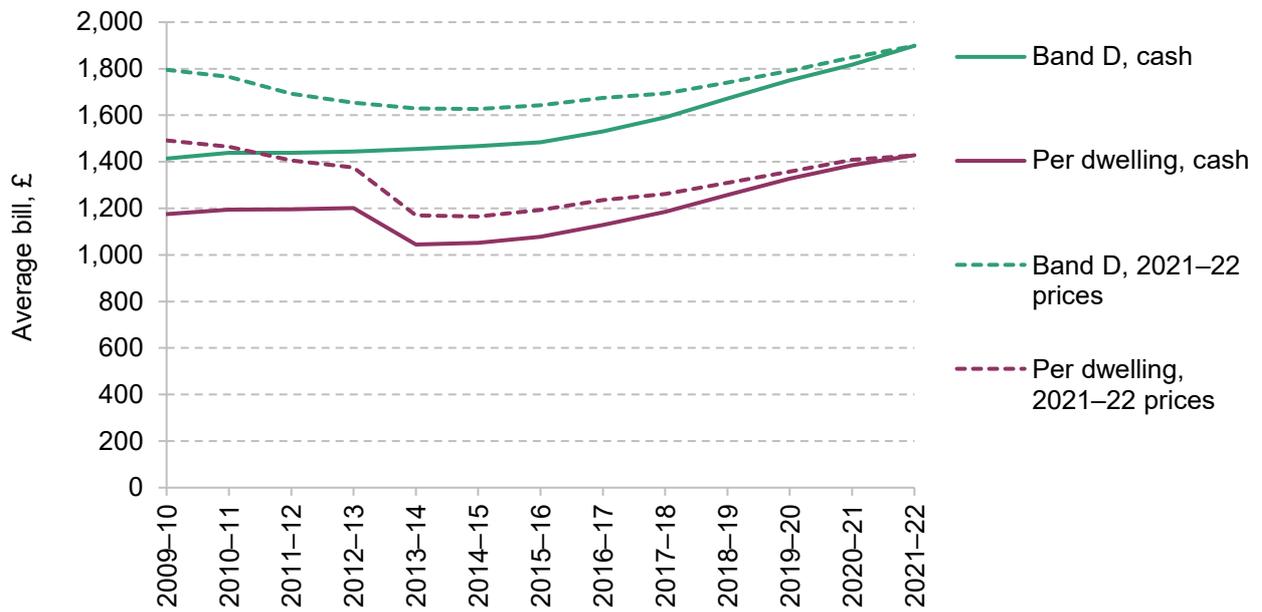
Table 7B.1. Change in net spending between 2019–20 out-turns and 2021–22 budgets, by service area

| Service area | Increase in spend (£ million) | Increase in spend (%) | Increase if growth between 2018 and 2019 had continued (%) |
|---|-------------------------------|-----------------------|--|
| Adult social care | 1,723 | 10.2% | 10.6% |
| Other services | 875 | n/a | n/a |
| Children's social care | 464 | 4.7% | 12.0% |
| Public health | 450 | 13.9% | -2.8% |
| Environmental and regulatory services | 401 | 8.5% | 5.7% |
| Cultural and related services | 141 | 6.5% | 2.0% |
| Highways and transport services | 114 | 5.8% | 7.0% |
| Housing services (GFRA only) | 101 | 5.8% | 10.9% |
| Central services | 89 | 3.2% | 11.7% |
| Planning and development services | -126 | -11.8% | 8.1% |
| Total non-schools service spending | 4,232 | 9.5% | 8.5% |

Note: Figures are totals for all main authority types in England, and are for net current expenditure. Spending on some services (education, police and fire) is not shown.

Source: MHCLG, 2019, 2020b, 2021d.

Figure 7B.9. Average council tax bills in England, 2009–10 to 2021–22, cash and real terms



Note: Average band D is calculated by dividing the total council tax payable in an area by the tax base used for council tax setting purposes (the number of band D equivalent properties). Average council tax per dwelling is calculated by dividing the total council tax payable in an area by the total number of chargeable dwellings in the area. Changing discounts and property bands mean the latter is a better measure of the 'average' bill, but is less useful for comparisons over time. Both figures include local and parish precepts.

Freeze grant was paid to local authorities that froze or reduced council tax between 2011–12 to 2015–16. Local authorities have been given flexibility to increase council tax by an additional amount to fund adult social care since 2016–17.

Source: MHCLG, 2021f; OBR, 2021.

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