Appendix A. Further detail on ongoing reforms to adult social care and local government finance in England

A.1. The changing social care system in England

Government financial support for those with disabilities and associated care needs is provided via three main channels.

First, those who have a health condition or disability that means they have difficulty undertaking day-to-day activities without support are, subject to assessment, eligible for benefit payments from central government irrespective of their income, assets or where they live: personal independent payment (PIP) and its predecessor disability living allowance (DLA) for those of working age, and attendance allowance for those aged 65 or over. Across England, 4.2 million people were in receipt of these benefits in 2016–17, at a cost of £17.3 billion. In addition, individuals who provide informal care of at least 35 hours per week, and who live in a family with low income and assets, can claim carer's allowance. Almost 700,000 people in England did so in 2016–17 at a cost of £2.3 billion.[17]

Second, individuals whose social care needs arise from a 'primary health need' may, subject to assessment, have their health and social care arranged and fully funded by the NHS Continuing Healthcare programme. There is no legal definition of what constitutes a primary health need, but guidance issued states that 'an individual has a primary health need if, having taken account of all their needs …, it can be said that the main aspects or majority part of the care they require is focused on addressing and/or preventing health needs' (Department of Health, 2012). Differing interpretations of primary health needs by different NHS clinical commissioning groups (CCGs) may partly explain the wide variation in expenditure on the Continuing Healthcare programme in different parts of England illustrated in previous IFS research.[18] Across England as a whole, just under 58,000 individuals were assessed as eligible for the programme at the end of 2016–17, and expenditure amounted to £3.2 billion in 2016–17, the most recent year for which data are readily available.[19]

Third, those deemed ineligible for NHS-funded care may be eligible for means-tested care organised and part or fully funded by their local council. Eligibility is based on an individual meeting two sets of criteria, one based on the severity of their social care needs and the other based on their financial circumstances.

We discuss the care needs criteria in the next subsection. The financial means test consists of two parts.[20] First, there is an asset test: those with (non-pension) assets of more than £23,250 are ineligible for council-funded care, and those with assets between £14,250 and

[17] Further information on these benefits is available in Hood and Norris Keiller (2016). For data sources, see Appendix C.

[18] See appendix B of Phillips and Simpson (2017).

[19] For data sources, see Appendix C.

[20] This information is taken from Department of Health and Social Care (2018).

£23,250 must pay for at least part of their care. The value of an individual's main residence is excluded from this asset test if they or their partner continues to live there, but is included otherwise. Second, there is an income test that applies to those with assets below £23,250. In particular, an assessment is made of the amount of income an individual needs. If an individual's income is high enough that they can fully fund their care without their retained income dropping below this level, they are not eligible for financial support from their council. If their income is not high enough for this, the individual is responsible for paying up to the point their retained income falls to the level they are assessed to need, with the council paying for the remaining costs.[21] Councils must also provide some services free of charge to those assessed as needing them, such as adaptations to an individual's home costing less than £1,000 and up to 6 weeks of 'reablement' services for those suffering a recent illness or disability.

The three channels of funding described above demonstrate that state financial support for those with care needs is split between central government (which pays for cash benefits), NHS CCGs (which pay for the Continuing Healthcare programme in their area) and local councils. It is part national and part local responsibility, operating within a framework set out by central government. There are both pros and cons of devolving the responsibility for organising and funding public services (and cash benefits) to subnational governments such as councils, as discussed in Box A.1.

Box A.1. The pros and cons of devolution

In discussing the pros and cons of devolution to subnational governments such as councils, it is worthwhile distinguishing between two types of devolution:

- **expenditure devolution**, whereby subnational governments have the responsibility to organise service delivery and determine how funding is allocated between services;
- **revenue devolution**, whereby subnational governments have responsibility for funding, at least in part, the services they provide via their own tax revenues, and have powers to vary the level and sometimes the structure of the taxes devolved to them.

In practice, systems of subnational governance often involve a combination of partial expenditure and revenue devolution, with central government providing frameworks and rules, which must be abided by, and redistributing revenues between subnational jurisdictions. This is the case for social care specifically and local government more generally in England, although, as discussed in this report, the balance of local autonomy and central rules is changing for both.

There are a number of potential benefits to devolving responsibility to subnational governments. First, both in terms of organising services, and allocating and raising revenues, they may be more informed about, and more responsive to, the needs and desires of the local population. People can also move to jurisdictions that better accord with their policy preferences. Second, there may be greater scope for policy innovation and learning as different subnational jurisdictions adopt different policies.[a] Third, it has

[21] Further information is available at https://www.nhs.uk/Conditions/social-care-and-support-guide/Pages/local-authority-funding-for-care.aspx#financial-assessment.

been suggested that complex issues – including addressing the care and safeguarding needs of vulnerable adults – require coordination between multiple service areas and organisations, and that this can be better done at a local level rather than by central government.[b] Fourth, councils that have responsibility for raising part of their own funding via local taxes may have a greater incentive to improve socio-economic conditions in their area to grow the tax base and, once they have raised money, use it more wisely knowing the difficulty with which it was obtained. Similarly, subnational governments may have stronger incentives to tackle underlying spending needs if any grant funding they receive is not fully updated to reflect changes in their assessed needs.

However, there are also potential costs to devolving spending and revenue-raising responsibilities to subnational governments. First, there can be economies of scale and scope that make providing services centrally more effective. For instance, designing and operating a single system of disability and carers' benefits nationally is likely to be cheaper than designing and operating hundreds of local schemes. Second, some public infrastructure and services may benefit residents of multiple subnational jurisdictions, and organising and funding these locally may require costly coordination between jurisdictions and/or lead to under (or even no) provision of the item in question if such coordination is not feasible. Third, the potential movement of people and businesses as a result of policy variation between subnational jurisdictions could have negative (as well as positive) effects. For instance, if a jurisdiction were to significantly reduce the tax rate it charged, it might attract wealthier residents from other jurisdictions, undermining their tax bases. Similarly, a jurisdiction may be able to encourage residents it considers less desirable (or more costly) to move elsewhere by cutting back on the types of services that they use.

Finally, society may have a preference for consistency in terms of service availability and quality across geographic areas, and devolution could make this less likely. For instance, different subnational jurisdictions may choose different eligibility criteria for services and fund services of different qualities. The stronger incentives to grow tax bases and tackle spending needs when subnational governments have greater responsibility for raising their own revenues also mean greater risk of divergences in funding availability between areas where the level of and changes in tax bases and spending needs differ. The raising and redistribution of funding by central government instead can, in principle, allow more comparable levels of services to be delivered across subnational jurisdictions.

This complex mix of pros and cons helps explain the often complex pattern of centralised and devolved service responsibilities, centrally determined rules and local discretion, and grant and own-revenue financing of subnational governments. When the balance of power and responsibility between central and subnational governments is changed, it is presumably because either these underlying costs and benefits associated with devolution are thought to have changed or a different trade-off between these costs and benefits is being made.

[a] This argument is often cited in the United States, where, in the 1930s, Supreme Court Justice Louis Brandeis argued that a 'state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country'.

[b] See, for instance, Cox, Henderson and Raikes (2014).

Recent reforms to the social care system

While central government provides a framework for the operation of adult social care services, councils have a significant amount of discretion over the operation of, and the level of funding for, these services in their local areas. However, councils now have less discretion than they had five years ago, as a result of two significant changes to the social care system.

First, the Care Act 2014 introduced new national regulations governing eligibility for publicly funded social care, replacing the previous 'Fair Access to Care Services' policy (FACS).[22] Under FACS, there was significant variation in the social care needs assessments undertaken and eligibility criteria applied by different councils (although, over time, increasing numbers of councils restricted eligibility to those with the most substantial care needs only, especially as cuts to local government funding took effect from 2010 onwards).[23] The new Care Act regulations set out a common approach to assessing care needs and centrally determined minimum standards on what care needs would result in someone being eligible for care (subject to the financial means test). These standards say that an individual has an eligible social care need if:

- they have care and support needs as a result of a physical or mental condition;
- because of those needs, they cannot achieve two or more of a number of outcomes related to daily living, such as dressing or feeding themselves appropriately, keeping themselves safe, maintaining personal relationships, etc.;[24]
- and, as a result of this inability, their well-being is significantly negatively affected.

The somewhat subjective nature of these criteria means that, in practice, different councils may interpret and implement the centrally determined rules in somewhat different ways. And they can use more generous rules if they so wish. But discretion is still reduced compared with under FACS (councils cannot apply rules that are less generous than the centrally determined ones).

In addition, the Care Act 2014 placed new statutory duties on councils to provide specific services. These duties include: to operate and maintain an information and advice service available to all; provide support for those providing informal care; to offer clear personal budgets to those receiving care; to arrange independent advocates for those unable to engage with the assessment and care process themselves; and to operate deferred payment schemes so that people need not sell their houses to pay for their care until after death.

The second major change is central government's growing use of ring-fenced funding to influence the total amount of money spent by councils on adult social care. Historically, funding for council-funded social care services came overwhelmingly from councils'

[22] More information on eligibility under FACS can be found in Department of Health guidance from the time: http://webarchive.nationalarchives.gov.uk/20121205180615/http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/@dh/@en/documents/digitalasset/dh_4019641.pdf.

[23] See National Audit Office (2014).

[24] A full list of the relevant outcomes that individuals are expected to be able to achieve is set out in the regulations that sit alongside the Care Act 2014, available at www.legislation.gov.uk/uksi/2015/313/pdfs/uksi_20150313_en.pdf.

general grant funding and council tax revenues, which they were free to allocate across services as they wished, subject to them being able to meet the statutory obligations placed on them. In the parlance of Box A.1, there was therefore a significant degree of expenditure devolution.

Now a significant proportion of the funding used by councils to pay for adult social care comes with the condition that it be spent only on these services. This includes transfers from the NHS to councils via the Better Care Fund (BCF) to pay for care services that have a health benefit; a ring-fenced grant, termed the Improved Better Care Fund (IBCF), provided directly by central government; and revenue from additional increases in council tax (beyond those normally allowed), which is termed the Social Care Precept (SCP). Funding via these streams could amount to £5.3 billion in today's prices in 2019–20, up from £2.2 billion in 2016–17 and virtually nothing in 2011–12.[25] The figure for 2019–20 is likely to be around 30% of councils' overall spending on adult social care in that year.

In addition to influencing the total amount of money spent on adult social care, these grants affect the distribution of spending around the country because they are allocated on the basis of a central assessment of relative spending need. Differences in historical house prices, and hence council tax bases, mean that the amount that different councils can raise from the SCP varies significantly.[26] However, the IBCF grant is allocated in a way designed to offset these differences and ensure that the overall pot of SCP and IBCF ring-fenced funding is allocated in proportion to the assessed relative needs for adult social care spending by different councils (as of the last official assessment in 2013–14).

Taken together, the increasing role of ring-fenced needs-based funding, and the introduction of a common approach to assessment, national minimum eligibility criteria and additional statutory duties, suggest a desire by central government for more consistent (and higher-quality and more-efficient) social care service provision across councils.

The transfers from the NHS via the BCF are part of broader efforts to better integrate health and social care services. Indeed, the BCF and IBCF involve councils and CCGs jointly agreeing pooled budgets and an integrated spending plan, covering elements of community healthcare as well as social care services.[27] In addition, groups of councils and local NHS organisations have been brought together in 'Sustainability and Transformation Partnerships' (STPs) to develop and agree proposals to jointly improve the efficiency of, and outcomes delivered by, local health and social care systems.[28] Central government has therefore taken a more active role in ensuring councils and local health organisations work together to address health and social care needs.

Proposed reforms to the social care system

In addition to the reforms already mentioned, the Care Act 2014 also set out longer-term plans for changes to the financial contribution councils would make for people's care, building on the recommendations of the Dilnot Commission (2011). The Commission highlighted two (related) issues with the current system: the low and sharp asset cut-off

[25] See Appendix C for data sources and methodology.

[26] See slides 6–10 of Phillips (2015).

[27] For further information, see https://www.england.nhs.uk/ourwork/part-rel/transformation-fund/bcf-plan/.

[28] For further information on STPs, see https://www.england.nhs.uk/systemchange/.

for eligibility, and the lack of insurance against high care costs for individuals with income and wealth above both this asset and the income means-test thresholds. It proposed an increase in the asset threshold for those requiring residential care; the introduction of a lifetime cap on the adult social care costs any individual must pay; and the common eligibility criteria already discussed. The Care Act 2014 took each of these forward, although the cap proposed (£72,000) was double that recommended by the Commission (£35,000), and just one year after the act was passed the introduction of the cap and increased asset threshold was delayed from 2016 to 2020. However, the plan would still have increased the degree of insurance offered to individuals with high care costs, increasing the cost of social care to councils. It would also likely have redistributed such costs between councils due to geographic variation in the proportion of people newly eligible for state-funded care and in the costs of this care.

The Conservative manifesto for the 2017 election scrapped these plans, instead proposing a common £100,000 asset threshold including an individual's primary residence for both home-based and residential care, but no lifetime cap on costs. However, following political pressure, there was an apparent U-turn on the abandonment of the cap on costs, although no specific detail was given on what any cap would be.[29] We now await a Green Paper due in Summer 2018 for more detail on new proposals for reform of social care funding. However, it seems likely that these will involve the state – and, if social care remains largely a responsibility of local government, councils – providing additional insurance to individuals and paying a higher share of the costs of social care.

A.2. The changing local government finance system in England

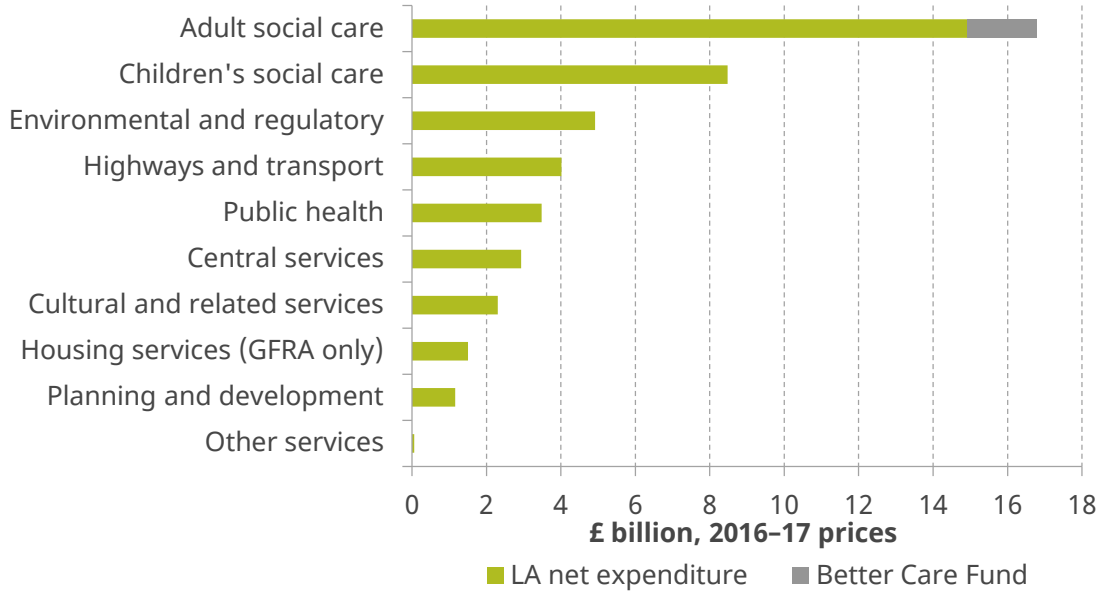
Adult social care is only one of the services English councils are responsible for. Figure A.1 shows councils' spending by service area in 2016–17. Spending on adult social care accounted for 34% (37%) of local government non-education service spending excluding (including) revenues from the Better Care Fund in that year (although, as shown in Phillips and Simpson (2017), this proportion varies significantly around the country).

Historically, councils funded these services via two main means: council tax, which is a tax levied on domestic property (i.e. housing), and grants from central government. A second property tax levied on non-domestic properties – business rates – was collected by councils but handed over to central government for redistribution as part of the grants provided to councils (although the size of these grants did not actually depend upon the business rates revenues actually raised). Figure A.2 shows that in 2009–10, under this system, 40% of councils' revenues (excluding those specifically for education) came from council tax, whilst 60% came from grants and redistributed business rates.

Council tax was and remains part-devolved. Central government determines the tax base: all houses are placed in a tax band from A to H based on their 1991 valuation, and the ratio between the taxes paid by properties in different tax bands is determined centrally and is the same across England. However, councils retain the revenues and, subject to centrally imposed limits on annual increases, determine the overall level of council tax charged in their area by setting the tax rate for a Band D property (with the tax rates for properties in other bands calculated using the aforementioned centrally determined

[29] See, for instance, https://www.theguardian.com/society/2017/may/22/theresa-may-u-turn-on-dementia-tax-cap-social-care-conservative-manifesto/.

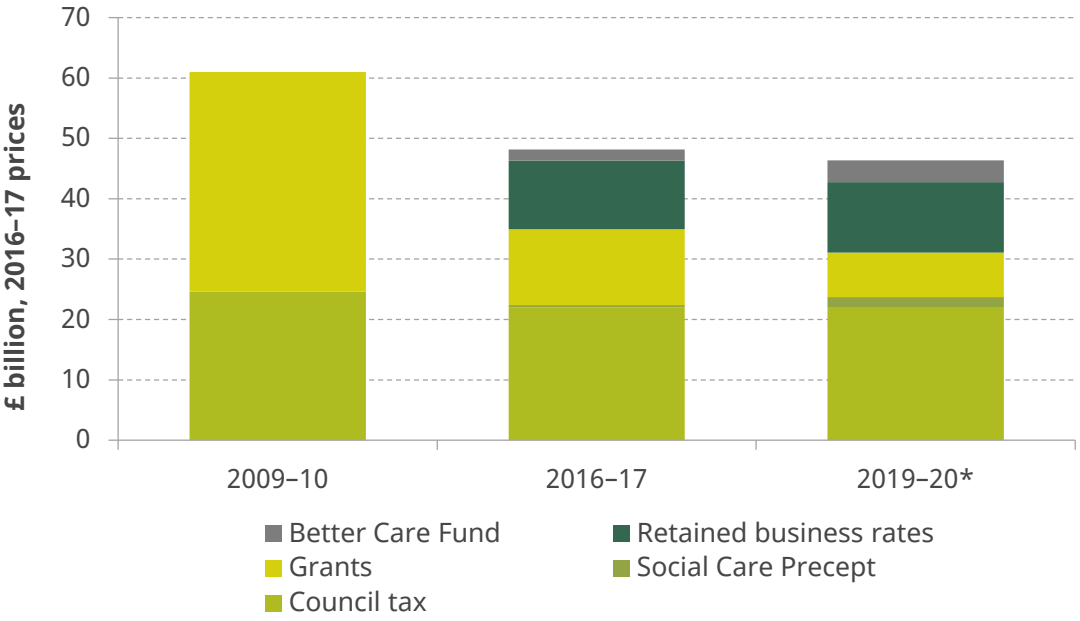
Figure A.1. Councils' net spending by service area, 2016–17



Note: Spending is defined as local authority net service expenditure, excluding spending by some authority types (police, fire and national park authorities) and on some service areas (education, police and fire). GFRA stands for General Fund Revenue Account.

Source: See Appendix C.

Figure A.2. Councils' revenues by source, 2009–10, 2016–17 and 2019–20 (forecast)



* Forecast.

Note: Grants include general and specific grants. In 2009–10, they also include redistributed business rates revenues.

Source: See Appendix C.

ratios). The average Band D rate in 2017–18 is £1,575, although the rate varies between £688 and £1,891 across councils.[30]

Grants from central government are provided in the form of specific grants for particular services and general-purpose grants (termed 'Formula Grant'). Until 2013–14, the general-purpose grants allocated to different councils were (in theory) based on two factors: first, an assessment of the relative spending needs of each council – which was a function of various socio-economic, demographic and other local area characteristics (see Box A.2);[31] and second, an assessment of the amount of council tax that each council could raise if tax rates were set at the same level nationally. The idea behind this approach was that grants would compensate councils for differences in their spending needs and their capacity to raise revenues via council tax. This would, in principle, allow councils to provide comparable levels of service (including for adult social care) for the same level of council tax. Differences in the quantity and quality of services provided would therefore be the result of differences in councils' efficiency, in the priority they placed on different services and in the levels of council tax they set.

However, two issues are worth bearing in mind. First, assessing spending needs is difficult and is likely to be subject to error. One needs to choose the characteristics that enter any needs assessment formulae and determine the weights to apply to them, which is difficult. Many factors are likely to influence spending needs, and these factors may interact or have non-linear effects on spending needs that are difficult to capture in any funding formulae. Data on relevant characteristics may be missing or only updated infrequently, meaning assessments get out of date. Moreover, we do not actually observe spending needs. Instead, we must proxy needs with something we do observe to estimate the weights used in the funding formulae. One approach is to use past expenditure as such a proxy. Weights can then be obtained by estimating the relationship between expenditure and local area characteristics. However, past expenditure will also reflect factors other than spending need. These include previous grant funding, and councils' decisions on how much council tax to charge and how to prioritise different service areas. For instance, suppose richer areas decided to set higher levels of council tax to increase expenditure and provide higher-quality services. Using past expenditure as a proxy for spending need would mean our assessment of the relative needs of these richer areas would increase (and that of poorer areas would decrease), even though this reflects local choices rather than assessed needs.

Second, councils' assessed spending needs and revenue-raising capacities were not the only factors that determined the general grant funding allocated to them. 'Damping' arrangements placed floors and ceilings on the annual change in the grants provided to different councils in order to provide greater funding certainty for councils. However, these also meant that if a council's relative assessed spending need were to continuously increase or decrease, its grant funding might not keep pace with these changes. In particular, those seeing continuous and significant increases in their relative needs could see their damped share of grant funding fall further and further behind their share of assessed needs.

[30] These figures include fire and police council tax 'precepts' in addition to the council tax levied by councils. Source: CIPFA Council Tax Demands and Precepts Statistics 2017–18, available by subscription from https://www.cipfastats.net/general/counciltax/Default.asp.

[31] For more examples of formulae used to assess councils' relative spending needs, see Department for Communities and Local Government (2013).

Box A.2. How does the government measure the adult social care spending needs of councils?

Rather than one formula assessing the overall spending needs of a council, there are separate formulae for different service areas, termed service blocks, and sometimes within them, sub-blocks. For example, 'Adults' Personal Social Services (PSS)' is a service block divided into two sub-blocks: 'Older People's Personal Social Services' and 'Younger Adults' Personal Social Services'.

Most formulae work in broadly the same way. To start with, each council is allocated an initial level of need based on the number of relevant '*units*' it contains. A unit is normally a person who lives in that council area (e.g. an adult aged 65+ in the case of social services for older people), but can be something else (e.g. a kilometre of road in the case of highways maintenance). In addition to this, there are per-unit *top-ups* reflecting drivers of spending need over and above the number of units. For example, in 2013–14, the formula for social services for older people set spending need per adult aged 65+ as follows:

Spending need per adult aged 65 or over

= *Basic amount per adult aged 65 or over*

+ *Age top-up based on the share of the 65-or-over population that is 90 or over*

+ *Deprivation top-up based on the share of the 65-or-over population that is claiming attendance allowance, living in rented accommodation, living alone or on low-income benefits*

The sum of the basic amount and any top-ups is then multiplied by the number of units (e.g. adults over 65, road kilometres) in the council area. So in our example:

Initial Older People's PSS need

= *Number of adults aged 65 or over* × *Spending need per adult aged 65 or over*

Once the initial need has been calculated, the scores for sub-blocks are summed and an area cost adjustment (ACA) is then applied to each service block as a whole. ACAs adjust for differences in both labour costs and business rates bills between councils and are applied to each service block depending on the relevant proportion of expenditure in that block that goes on labour and business rates. In our example:

Final Older People's PSS need

= *Initial Older People's PSS need* × *ACA*

Finally, each council's overall assessed need is calculated by summing scores across all service blocks according to weights set by DCLG.

Note that the inputs to the social care funding formula are not direct measures of the number of individuals eligible for social care based on the individual eligibility criteria.

In practice, then, the general-purpose grants would not have fully compensated councils for differences in their relative spending needs and their ability to raise revenues via council tax. But the focus of the local government finance system was on redistribution between councils, with the aim of preventing large divergences between different councils' shares of available revenues and their shares of (assessed) spending needs.

Recent reforms to the local government finance system

Redistribution will remain an important part of the local government finance system in future. But recent changes have seen a shift in focus towards providing stronger incentives for councils to grow local tax bases and tackle underlying spending needs.[32]

The legislative groundwork for a new system of local government finance was laid in the Local Government Finance Act 2012. Central to this new system was the devolution of a portion of business rates revenues to local government. Although the tax had always been collected locally, it had previously had no direct bearing on the total amount of funding available to local government or on the budgets of individual councils. This meant that councils had no financial incentive to grow the business rates tax base. The reforms aimed to provide such an incentive by creating a direct link between the budget of each council and the business rates revenues raised in its area.

The new system – dubbed the business rates retention scheme (BRRS) – came into effect in 2013–14. In that year, grant funding was reduced, and since then local government has instead retained 50% of the rates revenues collected by English councils. Figure A.2 shows the changed composition of council revenues: in 2016–17, 25% came from what is known as retained business rates, 27% from grants and 48% from council tax. Note that the increase in the share coming from council tax (up from 40% in 2009–10) reflects reductions in revenue from grants rather than increases in council tax revenues.[33]

Although 50% of business rates are now allocated to local government as a whole, individual councils do not keep 50% of business rates raised in their local area. In general, the distribution of business rates revenues around the country is very different from the distribution of spending, so if individual councils were to have kept 50% of the business rates they raised, there would have been radical changes in budgets available to different councils.[34]

Instead, a central assessment was made of how much business rates revenue each council needed and how much they were likely to receive in 2013–14. Those authorities expected to have revenues higher than their assessed need had to pay a 'tariff' equal to the difference. The income from all these tariffs was used to fund 'top-ups' for councils with relatively low business rates incomes compared with their spending needs.

[32] The text here draws heavily on Amin-Smith et al. (2016), where readers can find more details on the changes.

[33] Indeed, council tax revenues fell in real terms, reflecting two factors. First, councils were incentivised to freeze their council tax rates in cash terms between 2011–12 and 2015–16. Second, the localisation of council tax benefit in 2013–14 replaced the council tax that had previously been paid on behalf of low-income households by the Department for Work and Pensions via council tax benefit with a (smaller) grant for councils to design their own benefit.

[34] For more information on the distribution of revenues and spending, see Amin-Smith, Phillips and Simpson (2018).

These transfers between authorities meant that in the first year the system operated, councils received similar funding levels to those under the old system of needs-based grant funding (despite the funding system looking very different). The difference between the old system and the new system of business rates retention lies in what happens next.

The key thing to note is that in each year since 2013–14, tariffs and top-ups have simply been increased in line with inflation. They are not updated to reflect any changes in the distribution of spending needs or business rates revenues around the country. The upshot is that individual local councils bear up to 50% of the real-terms changes in business rates revenues raised in their area. They see their income increase when, for instance, new non-residential property is developed in their area and they see their income decrease when such property is demolished (although particularly large reductions in income are prevented by so-called 'safety-net' payments that replace lost business rates revenues).

In addition to the partial devolution of business rates, 2013–14 also saw the ending of annual needs assessment for the remaining general grants allocated to local authorities. This is the reason why recent ring-fenced funding for social care services is still based on needs assessed in that year. Similarly, grant allocations since 2016–17 are based on different councils' council tax revenues as of 2015–16, and have not taken into account changes in council tax bases since then.

Alongside the BRRS, these changes provide stronger financial incentives for councils to grow their local tax bases and address underlying spending needs: offsetting changes to general grant funding are no longer made when their tax base or assessed spending needs change. But the flip side of these stronger incentives is that councils bear more of the financial risk associated with changes in their tax bases and needs. These changes may be affected by the policies and performance of councils but will also be affected by factors outside of councils' control.

Councils seeing relatively strong growth in their tax base and/or falls in their relative spending needs would see their funding levels increase relative to their needs. But councils seeing relatively weak growth or falls in their tax base and/or increases in their relative spending needs would see their funding levels fall relative to their needs. This could lead to divergences in the ability of different councils to provide services to their residents. To prevent such divergences growing indefinitely, the government planned to reset funding according to assessed needs in 2020 and every decade thereafter (likely with 'damping' arrangements to phase in any resulting big changes in funding implied by the reset).

It is worth noting that at the same time as these reforms, central government has made large cuts to local government funding through a combination of reductions in the generosity of grants and imposed council tax freezes. As a result, local government revenues (measured on a consistent basis as in Figure A.2) fell by 21% in real terms between 2009–10 and 2016–17.[35] Many councils chose to insulate adult social care from the full brunt of austerity, meaning that spending on adult social care fell by a more modest 6% over the same period.

[35] Service spending, measured on a similarly consistent basis, fell by slightly less – 18%.

Upcoming and proposed reforms to the local government finance system

Until June 2017, it was government policy that the share of real-terms growth in business rates revenues that would be retained locally would increase to 100% by 2020. At the same time, general grant funding for councils would be abolished, and additional spending responsibilities would be devolved to councils to fund out of their council tax and increased share of business rates revenues.[36] In addition, it was proposed that the periodic funding resets be made partial so that councils retained at least a proportion of any changes in their business rates tax base in the long term.[37] The increase in the fraction of real-terms revenue changes borne locally and moves to partial resets would provide stronger incentives for councils to grow their business rates base. But it would also increase the potential for funding divergences to open up between councils over time.

Since June, things have changed somewhat. The legislation required to deliver the 100% BRRS did not pass prior to the June 2017 election, and has not been resurrected since. Instead, in his speech to accompany the draft local government finance settlement for 2018–19, Sajid Javid, the Secretary of State for Communities and Local Government, announced the intention of moving to a 75% BRRS in April 2020.[38] However, pilots of the 100% BRRS were rolled out in areas including Cornwall, Greater Manchester and Merseyside in April 2017. A further 11 pilot areas have been announced for April 2018, including Berkshire, Derbyshire, Leeds, Suffolk and Surrey. And Sajid Javid has indicated that there will be additional pilot areas from April 2019 as well.

Thus, while a national roll-out of the 100% BRRS is on hold, there are firm plans to further increase the share of business rates retained by councils across England. And the roll-out of further pilots of the 100% scheme suggests there is still appetite for moving towards making councils bear real-terms changes in local business rates revenues in full. This means a further shift in the philosophy of the local government finance system away from equalisation towards the provision of financial incentives for tax base growth. The implication is that the government must be willing to tolerate greater divergences in the ability of different councils to fund services in order for those financial incentives to operate.

A.3. Summary

This chapter has set out the evolving systems of state-funded adult social care and local government finance. State-funded adult social care services are largely the responsibility of local government, and while they operate under a centrally determined framework, councils have discretion on the operation and funding of these services in their area. That discretion has been reduced in recent years, though, with new centrally imposed requirements on individuals' care needs assessments and eligibility criteria and on the services councils must provide. An increased share of the funding for adult social care is also specifically ring-fenced for that purpose. This suggests the government is keen to ensure a consistent standard of adult social care services across the country.

[36] The devolution of additional spending responsibilities was deemed necessary because the business rates revenues being devolved would, by 2020, significantly exceed the general grant funding councils were receiving.

[37] See Department for Communities and Local Government (2017a).

[38] See Department for Communities and Local Government (2017b).

At the same time, reforms to the local government finance system have reduced the role of central government in the overall funding of councils. Large cuts to grants, the ending of the annual updating of councils' spending needs assessments, and the introduction of the BRRS all mean councils' funding will depend more on local tax revenues than for decades. These policies are designed to provide stronger financial incentives for councils to grow their revenues and tackle spending needs. But they mean councils bear more of the financial risk associated with changes in local tax revenues and spending needs. This suggests the government is willing to allow divergences in the ability of different councils to provide services in order for councils to have said financial incentives.