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

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Preface

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Contents

Executive summary

The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).

Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils' revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils' funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.

Local government revenues and spending in 2019–20

- **On this basis, English councils are budgeting for revenues of £55.7 billion or £988 per person in 2019–20.** Of this, 48% is set to be from council tax, 29% from retained business rates revenues and 23% in the form of grants from central government. The vast majority of revenue from grants is in the form of specific or special grants, which are sometimes ring-fenced for particular services such as with the public health grant and some funding for adult social care services.

- **Councils are budgeting to spend £49.4 billion or £875 per person this year on services other than education, police, fire and national parks.** Social care is the largest part of this, accounting for £28 billion, with adult social care accounting for just over two-thirds and children's social care just under one-third of this. At the other end of the scale, culture (including libraries), housing and planning together account for around £5 billion or 10% of service spending.

- **Councils are also planning to use revenues to service their net debts (£3 billion), help pay for investment in infrastructure and facilities (£1.2 billion), and pay for spending on education and fire services that is not covered by specific grants.**

Taking account of this additional spending, councils are budgeting to spend more than they receive in revenues, and therefore draw down reserves to the tune of close to £1 billion. However, it is worth noting that councils planned to draw down reserves in 2017–18 and 2018–19 as well, and ultimately paid into them due to revenues being higher than budgeted for.

These figures follow a decade during which there have been major changes to local government revenues and spending, which have impacted differently across the country and across services.

Councils have seen big funding cuts over the last decade – with the large bulk made between 2009–10 and 2015–16

- **The revenues available to councils to fund local services will have fallen by 18% in total or 24% per person over the last decade and, as a result, net spending on services will have fallen by 17%, or 23% per person.** These cuts have been driven primarily by the cuts to central government funding: down by 33% in total or 37% per person after accounting for the replacement of some grant funding with business rates revenues under the BRRS. But a council tax freeze between 2011–12 and 2015–16 and a shifting of the burden of supporting low-income residents' council tax bills from central to local government have also contributed to the cuts.

- **Most of the cuts took effect between 2009–10 and 2015–16, a period during which revenues and spending per person fell by 21% and 22%, respectively.** Since then, the pace of cuts has slowed significantly as additional ring-fenced grant funding for adult social care services and a resumption of council tax increases have almost offset cuts to general grant funding. Indeed, service spending per person in 2019–20 is budgeted to be around 3% higher per person than its nadir in 2017–18.

- **Council tax bills set by councils themselves have increased by 8% in real terms following the end of the council tax freeze in 2015–16 (overall council tax bills have increased a little faster due to bigger increases by the police).** Together with growth in the tax base, this has resulted in an increase in council tax revenues per person of nearly 15% over the last four years. Part of the growth in the tax base is due to increases in the housing stock, but part also reflects at least a 4% real-terms reduction in how much councils spend on helping low-income households pay their council tax bills.

- **Cuts to central government funding have meant councils now rely much more on local tax revenues for their overall funding.** Council tax is budgeted to account for nearly half of revenue, up from 40% in 2009–10 (and 34% if we exclude the council tax that central government used to pay on behalf of low-income residents). Business rates retained under the BRRS also contribute around 30% of revenues, up from 0% back in 2009–10.

Cuts have been bigger in poorer, more urban areas – but they still receive and spend more

- **Spending cuts per person in the most deprived tenth of council areas have averaged 31% (£432), compared with 16% (£134) in the least deprived tenth.** This reflects the fact that between 2009–10 and 2015–16, the system for determining how much central government funding councils should get did not fully take into account how much councils relied on such funding relative to their own council tax revenues. Changes to the way grants were allocated from 2016–17 have remedied this issue since then – but not undone the previous pattern.

- **Spending cuts have also varied across regions, again largely driven by differences in reliance on central government funding.** For example, spending per person has fallen by 30% in the North East compared with 15% in the South West. Spending per person has fallen by 32% in London reflecting the fact that the government also significantly reduced funding for the Greater London Authority to subsidise buses and tubes, and councils in London have generally taken less advantage of the scope to increase council tax in recent years.

- **However, despite larger cuts in more deprived areas, revenues and spending are still higher.** For example, spending per person in the most deprived councils is 1.3 times the level in the least deprived – although this is down from 1.6 times in 2009–10. We cannot easily say whether the new or old funding and spending relativities are more appropriate though. To do this would require three things: (1) defining what we expect from councils in terms of service range and quality; (2) a robust way of estimating how much councils need to meet these expectations; and (3) a subjective judgement on how much it is appropriate to redistribute revenues in order to help all councils meet these expectations.

- **More deprived councils rely on central government funding for more of their revenues than less deprived councils.** They raise less in council tax both in cash terms (£336 per person for the most deprived tenth, for example) and as a percentage of their overall revenues (29%) than the less deprived (£599 and 68%, respectively, for the least deprived). The local government funding system therefore remains redistributive, just less so than in the past.

Councils' budgets have become increasingly focused on social care and those with the greatest needs

- **Councils have made large cuts to more discretionary areas of spending and areas where it is relatively easier to raise income from fees and charges.** Spending per person on planning and development is down around 60%, on cultural services and housing services down over 50% and on transport down over 40%.

- **This has allowed councils to relatively protect services for those with acute needs and rising demands.** Spending on adult social care services is down just 7% per person, and spending on children's social care services is budgeted to be *up* 2% per person this year over 2009–10 levels. Even for service areas that have seen big cuts overall, there have been increases for some areas, such as a 72% increase in spending per person on homelessness prevention. Spending on free bus passes is up 1% in total (although down 6% per person), and now accounts for 25% of highways and transport spending, up from 15% in 2009–10.

- **Even with this relative protection, tough choices have had to be made – and pressures are evident.** For example, growing demand for services for younger adults means spending on social care for the over-65s is down by an estimated 18% despite a more-than-20% rise in the elderly population. The number of adults receiving care services also fell 27% between 2009–10 and 2013–14 – although it has been broadly flat since 2014–15. For children's social care services, councils have had to cope with a more-than-doubling of safeguarding enquiries, leading to over a third more children being on a protection plan and 17% more being in care. And councils have overspent their children's services budgets by an average of 8% since 2015–16.

- **Income from sales, fees and charges (SFCs) has to some extent mitigated cuts to what councils spend themselves.** Between 2009–10 and 2018–19 – the latest year for which figures for income on SFCs are available – revenue per person including SFCs fell by 19%, compared with 22% excluding SFCs. This is because SFC income increased by 1%, although it fell by 5% per person.

- **But the extent of this has differed across services.** For example, we find that spending per person on planning and development fell by 42% rather than 60% up to 2018–19 once spending covered by SFC income – which grew 19% per person – is accounted for. On the other hand, accounting for spending covered by SFCs changes the picture very little for social care services. For adult social care services, for instance, accounting for income from co-payments from care recipients reduces the scale of cuts in spending up to 2018–19 from 9% to 8% per person.

Different councils have made somewhat different choices over spending

- **While nearly all councils have protected social care relative to other services, different councils have allocated the cuts they have faced differently.** Relative to the overall size of the cuts they have faced, councils in London have made bigger cuts to adult social care services and smaller cuts to housing and planning and development services. More deprived councils have also made bigger-than-average cuts to social care services, even controlling for cuts to their overall budgets. These differences will reflect differences in both the pressures being faced at a local level and local preferences.

- **In the last few years, a growing number of councils have started to prioritise spending on housing and planning and development services.** For example, around 36% of councils relatively protected housing spending between 2015–16 and 2019–20, up from 16% between 2009–10 and 2015–16. This likely reflects a growing focus on homelessness and housing as an issue requiring action. However, only 13% of councils have relatively protected cultural services – even fewer than did so between 2009–10 and 2015–16.

The short-term funding outlook has improved …

The government has forecast that what it terms councils' core spending power – effectively council tax, business rates and the main grants – could increase by 4.3% in real terms in 2020–21 compared with this year. In part this reflects a £1.1 billion increase in grant funding mostly labelled as being for social care services, but which can in fact be spent as councils wish. It also accounts for increases in business rates revenues in line with inflation, and assumes all councils increase council tax by the maximum allowed without a referendum (2% plus a further 2% for adult social care services).

- **Together with more modest increases in spending over the last two years, if this additional funding is spent in full, around one-fifth of the overall fall in spending per person between 2009–10 and 2017–18 could be undone by the end of next year.** But this would still leave spending per person 20% lower in 2020–21 than it was in 2009–10.

- **Not all councils will benefit equally from the increases in government funding and council tax.** The increases have been targeted at councils with social care responsibilities given these are where spending pressures are most acute – lower-tier district councils will therefore see significantly smaller increases in funding.

- **Some councils may actually see a fall in funding next year, because the government plans not to renew pilots of '75% business rates retention', with pilot councils moving back to the standard 50% retention.** For example, we estimate that councils in Berkshire will gain the equivalent of 5.8% of their non-schools revenues from being a pilot area this year: the loss of this money next year is likely to outweigh increases in council tax and grant funding. But ending the pilots has freed up funding that can benefit councils across the country, not just pilot councils.

… but this could be just a lull in the storm

Looking further ahead, the vast majority of councils' funding is set to come from council tax and business rates from 2021–22 onwards. This is because councils are set to move from retaining 50% to retaining 75% of business rates revenues, with grant funding cut accordingly to ensure the reform is revenue-neutral at the point of implementation.

- **Revenues from these two taxes will not keep pace with rising demands and costs – unless we see continued large increases in council tax each year *and* sustained improvements in productivity for key services.** With no productivity growth for the adult social care sector (which would be in line with historical trends), for instance, the proportion of local taxes needed to fund social care would grow over time, even with council tax going up 4% a year – double the rate of inflation.

- **With 4% increases in tax bills each year, we estimate an additional £1.6 billion of funding in today's prices would be needed by 2024–25** to both meet projected adult social care costs and stop the revenue available for other services falling further as a share of national income. The amount needed would rise considerably over time, reaching £8.7 billion (in today's prices) by the mid 2030s.

- **With 2% council tax increases, an additional £3.9 billion in funding (in today's prices) would be needed by 2024–25, rising to £18.0 billion (in today's prices) by the mid 2030s.**

- **These figures are based on keeping the current social care system. Increases in generosity would push up costs further, necessitating bigger increases in funding or a bigger squeeze on other services.** For example, estimates from the Health Foundation and King's Fund suggest free personal care for the elderly – a recent Labour pledge – would cost £6 billion initially, but rise to over £8 billion in today's prices by 2030.

Big decisions looming on distribution as well as levels of funding

- **As well as taking decisions about the overall level of funding to provide to councils, the next government will have to take decisions about how that funding should be distributed between them.** Costs are likely to rise at different rates for different councils – because of differences in demographic and socio-economic trends. And the amount councils can raise from council tax and retained business rates varies significantly.

- **Councils could be given additional tax-raising powers, such as via a local income tax, or they could be provided with additional grant funding from Westminster.** The former would give councils and their residents more discretion over how much to tax and spend, and stronger financial incentives to grow the local economy. But the latter would more easily allow money to be targeted at places where spending needs are the highest and/or local revenue-raising capacity is the lowest.

- **As it stands, there is a risk of policies for local government funding and social care coming into conflict.** That is because the recent direction of travel in the funding system has been to increasingly prioritise financial incentives, which means undertaking less redistribution as local needs and revenue-raising capacities change. But at the same time both the Conservatives and Labour have highlighted an aim of ensuring more consistent social care service provision across the country. The next government will have to square this difficult circle.

- **It is also worth noting that the bigger cuts to funding seen by councils in more deprived areas since 2009–10 could get baked into new assessments of councils' spending needs due to come into use in 2021–22.** The next government will need to make an inherently subjective decision about whether current relative funding levels for more deprived and more affluent council areas are fairer than the relative funding levels before the cuts took effect.

The BRRS and NHB have had significant impacts on some councils' funding but little is known of their impact on councils' behaviour

The 2010s have seen two funding schemes aimed at incentivising councils to boost the supply of housing and commercial property in their areas. In particular, the NHB pays additional grant funding to councils for several years for each empty property brought back into use and each new home built in their area. The BRRS means councils retain a proportion of the real-terms growth or decline in local business rates revenues. The government is reviewing both schemes currently with changes due to take effect in April 2021. It is therefore important to understand how they have affected councils' funding and behaviour so far.

- **Councils are set to retain £17.5 billion of business rates revenues in 2019–20, of which £1.9 billion is above-inflation growth in revenues.** Altogether since 2013–14, councils have retained £5.9 billion of above-inflation growth in business rates, measured in today's prices.

- **Not all councils have gained equally from the BRRS.** Councils in London have retained the most above-inflation growth – £1.8 billion or £197 per person – over the last seven years. On the other hand, those in the North East have retained the least – £83 million (£31 per person).

- **Perhaps surprisingly, more deprived areas have done at least as well from the BRRS as more affluent areas. But they have done worse from the NHB than less deprived areas, at least outside London.** To some extent, this reflects lower rates of house-building. But it also reflects the fact that higher payments are made for new properties in high council tax bands. Some of the biggest gains have been in quite deprived parts of inner London though – driven by the very rapid rate of housing development.

- **Councils are set to share £0.9 billion of NHB payments in 2019–20, and have received £8.4 billion of payments over the last nine years.** London councils have received the most in absolute and per-person terms: £1.8 billion or £207 per person. Councils in the North West have received the least per person: £110.

In areas of the country with two-tier local government, lower-tier district councils receive 80% of NHB payments and, under the standard version of the BRRS, up to 80% of the locally retained share of growth (and falls) in rates revenue.

- **As a result, since 2011–12, lower-tier districts have received NHB payments averaging 9% of their funding.** They have also retained real-terms business rates growth equivalent to 5% of their core spending power since 2013–14. In contrast, counties have received payments and growth equivalent to 0.5% and 0.6% of their core spending power respectively.

- **When designing the new 75% national BRRS, it probably makes sense to allocate a larger share of the growth and falls in revenue to upper-tier counties.** This would channel more of the forecast growth in revenues to counties to help fund social care services, and would reduce the scale of divergences across the country in funding for lower-tier services that could otherwise open up over time if districts continue to retain the bulk of revenue growth and falls.

There is currently very limited evidence on whether the BRRS and NHB are affecting councils' behaviour and boosting property development and growth in the way intended. There has been no official evaluation of the BRRS and the evaluation of the NHB focused on a survey of planning officials in councils. This provided mixed evidence on the impact the scheme was having, with a plurality believing it to have increased support for new homes among councillors but just 10% believing it increased support for new homes among the wider community (with 59% disagreeing), and 11% thinking it had been an ‘important influence’ in developing local housing plans.

More evidence is needed before decisions are taken about the future of these schemes, and we plan on looking at this issue in more detail in the first half of 2020.

1. Introduction

2019–20 looks increasingly likely to be the final year of a decade of cuts to central government funding for English councils. But that does not mean it marks an end to the challenges that councils face in reconciling increasing service demands and costs with the limited resources available to them. And major reforms to the *system* of council funding that began earlier this decade are set to continue, not least with the implementation of the Business Rates Retention and Fair Funding reviews due in 2021–22.

Over the last few years, researchers from IFS have been looking in depth at the trends and outlook for councils' revenues and spending, and analysing the issues and options for reform of the funding system. A series of reports and briefing notes have considered issues such as the design of the Business Rates Retention Scheme (BRRS), the assessment of councils' spending needs and revenue-raising capacities, the tensions between national standards and local funding for adult social care, and options for the devolution of additional taxes to local government.[1]

These reports have fed into the development of government policy and sparked discussions about the future of local government funding across the sector and more widely. But as the current round of policy reviews draws to a close, and attention turns from austerity to a loosening of the purse strings, we believe it is important to continue to scrutinise councils' financial situation and the challenges and issues ahead.

With this in mind, this report is the first of what we hope will be a series of annual reports on local government revenue and spending trends, challenges and issues. It sets the pattern for future reports with core analysis of revenue and spending trends and choices and the funding outlook, followed by an in-depth look at a particular issue: in this case, the impact of the BRRS and New Homes Bonus (NHB) on council funding.

The rest of this report proceeds as follows. Chapter 2 looks at how revenues and spending on different services have changed across councils in different parts of England in recent years. Going beyond high-level descriptive, it considers the extent to which patterns are driven by central government decisions and local choices, and examines some of the factors linked to local choices about spending prioritisation and associated with different changes in fees and charges income. Chapter 3 looks to the future. After discussing the government's plans for 2020–21, it looks at whether planned funding sources will be sufficient to meet projected increases in service demand and costs and, if not, the options for filling the gap. Chapter 4 then focuses on two key policies introduced to incentivise councils to support and facilitate housing and commercial property development: the NHB and the BRRS. In particular, we analyse which councils have done financially well and poorly from these schemes, seeing whether there are patterns that could become more important as councils move to retaining 75% of business rates growth in the coming years. We also examine what evidence exists about the impact of these schemes on councils' behaviour – which is actually very limited. Chapter 5 offers some concluding remarks. Appendices provide methodological details, information on local government revenues and spending in Scotland, and additional statistical analysis.

[1] A full listing of our reports and briefing notes can be found at http://www.ifs.org.uk/research/local-finance. A summary of key findings can be found in Amin-Smith and Phillips (2019a).

2. Councils' revenues and spending: levels, trends and choices

The past decade has seen significant changes to both the local government funding system and funding levels. In particular, big cuts to grant funding and the introduction of the Business Rates Retention Scheme have seen a significant increase in reliance on local taxes for revenues, despite a widespread council tax freeze between 2011–12 and 2015–16. Overall revenues have fallen significantly, leading to an associated fall in council spending, albeit unevenly across the country and across services. And councils have seen the devolution of new responsibilities over public health and support for learning disabilities; but they have seen control over education spending simultaneously centralised at Whitehall and decentralised to schools.

It is in this context that this chapter investigates what has happened to council revenues since 2009–10, how council spending has changed as a result, and how different councils have responded in different ways to these changes in the funding landscape.

2.1 Local government revenues and spending in 2019–20

What is the current landscape for councils' revenues and spending?

In 2019–20, local authorities in England are budgeting to receive around £100 billion in revenues from government grants, local taxes and investments to cover day-to-day spending. This money will primarily be used to provide various local services, including schools and education services, adults' and children's social care services, police, and fire and rescue services, local environmental services, and local transport services, among others. However, local authorities also plan on using some of this revenue to cover interest and repayments on their debt, and some plan to transfer a portion to their capital budgets to pay for investment in local infrastructure and facilities.[2] It is therefore not surprising that in 2019–20, actual net spending on services is budgeted to be £96 billion – £4 billion less than revenues.[3]

A significant portion of this total budget (about one-third in fact) is ring-fenced for education; but the Academy and Free Schools programmes, which are funded directly by central government and have progressed at different paces in different parts of the country, mean that this spending is not comparable across local authorities nor over time. Moreover, national park services, police services, and fire and rescue services are generally provided by separate authorities funded by separate grants and council tax charges (or 'precepts') – and so general-purpose councils do not usually have direct control over spending on these services. We therefore exclude these specific service areas in the analysis that follows – in order to focus on the revenues and spending over which

2 In addition to this, local authorities are also able to build up, or draw down, reserves – saving some of this income for a rainy day, or using past savings to spend more today. As we discuss later, local authorities' budgets imply a drawdown of reserves in 2019–20 of around £950 million.

3 In common with most analyses of local government spending, this report focuses on net expenditure, which excludes income received from fees and charges and several other sources. However, we discuss fees and charges, especially when looking at how councils have responded to falls in their grant funding.

general-purpose borough, county, district and unitary councils exercise significant control.[4]

Doing this, we find that English councils are budgeting for about £56 billion, or £988 per person, of revenues to fund other core services in 2019–20. This comes from three primary sources – council tax, retained business rates (RBRs) and grant funding. For the purposes of the discussion that follows, we refer to combined income from these three sources as councils' *fiscal revenue*. As shown in Table 2.1, councils are more reliant on local revenue

Table 2.1. Councils' fiscal revenue by source and net spending by service, 2019–20

	Total (£ billion)	Per capita (£ per person)	Contribution (%)
Fiscal revenue	**55.7**	**988**	**100%**
Central grant funding	12.6	223	23%
Formula grant	*0.8*	*14*	*1%*
Specific and special revenue grants	*11.8*	*209*	*21%*
Retained business rates	16.3	289	29%
Council tax	26.8	476	48%
Net service expenditure	**49.4**	**875**	**100%**
Adult social care (ASC)	18.8	333	38%
Children's social care (CSC)	9.1	162	19%
Environment and regulation	5.2	92	11%
Transport	4.9	86	10%
Public health	3.2	58	7%
Central	3.2	57	7%
Culture	2.1	37	4%
Housing	1.7	30	3%
Planning	1.2	21	2%

Note: See Appendix A for details on adjustments made to revenue and expenditure measures to exclude income/spending for police, fire and rescue, national park and education services. Labels for different service areas are shortened for ease of presentation. 'Transport' refers to 'highways and transport services'; 'Culture' refers to 'culture and related services'; 'Planning' refers to 'planning and development services'; and 'Central & other' and 'Central' are used interchangeably to refer to combined spending on both central services and other services. Values are drawn from local authority *budgets*, as out-turns for 2019–20 are not yet available.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2019e) and Office for National Statistics (2019a).

[4] Appendix A provides detail on how we construct consistent measures of revenue and spending for councils that incorporate spending by different tiers (e.g. counties and districts in two-tier areas) and the specialised transport, waste and combined authorities that exist in certain areas and have responsibility for some services that are usually carried out by general-purpose councils.

sources than on central government funding. While council tax contributes 48% of total revenues, and RBRs contribute 29%, grants from central government make up only 23% of the *fiscal revenue* available to councils to fund local services.

Table 2.1 also shows what local authorities budgeted to spend on services aside from education, national park, police, and fire and rescue services in 2019–20. All in all, this amounted to net spending of £49 billion, or £875 per person.[5]

Social care is clearly the largest element of councils' spending on services, constituting nearly 60% of the total service provision budget – at about £28 billion, or £495 per person. Adult social care currently makes up over two-thirds (£18.8 billion) of this, while spending on children's social care contributes just under one-third (£9.1 billion). Environment and regulation services (including waste collection and disposal) take around 11% of the total (£5.2 billion), transport around 10% (£4.9 billion), and public health and central administrative services around 7% each (£3.2 billion). The remaining service areas (namely, culture, housing and planning) together account for around 10% of net service spending.

How do revenue and spending patterns vary across local areas and councils?

However, there is significant variation in budgeted revenue and spending levels across council areas. For example, net spending on services ranges from £639 to £17,050 per person – with one-in-ten council areas budgeted to have net spending of less than £745 per person and one-in-ten more than £1,190 per person.

These council-level differences are reflected in differences across regions as shown in Table 2.2. Councils in London, the North West and the North East have the largest service budgets – with councils in London budgeting to spend the most, at almost 30% more than the national average in 2019–20. Councils in the South East, East Midlands and East of England, on the other hand, are budgeting to spend the least – at about £780 per person, or 11% lower than the national average.

The table also illustrates significant differences in spending patterns across regions (again reflecting even bigger differences for individual council areas) and especially between London and the rest of the country. For example, spending on adult social care is budgeted to make up a significantly lower share of council spending in London than in any other region – and indeed to be lower in cash terms per person than in any other region.[6] In contrast, more is allocated to housing in both cash and proportional terms in London, and more is allocated to children's social care in cash terms, despite a lower fraction of councils' service budgets going to this latter area than in the rest of the country. Perhaps most notable is the high share allocated to transport in London and, to a lesser extent, the other regions with major metropolitan areas – the North West, North East, West Midlands and Yorkshire and the Humber. This reflects spending on metropolitan public transport services such as Transport for London. However, it is worth noting that the Greater London Authority's budget for transport in 2019–20 is around 60% higher than what was spent in 2018–19, and is unlikely to remain at this elevated level.

[5] In 2019–20, councils also plan to spend a net £3.0 billion on debt servicing costs, £1.2 billion on transfers to their capital investment budget, and £3.1 billion on education services that are funded from general revenues (rather than education-specific grants).

[6] Although London councils allocate more of their budget to children's social care than shire counties do.

Table 2.2. Total net service spending per person (2019–20 £) and net spending for each service (%), by region, 2019–20

	London	North West	North East	West Midlands	Yorkshire and Humber	South West	East of England	East Midlands	South East
Net service spend (£ per person)	1,126	928	920	850	830	795	780	780	778
ASC	28%	38%	39%	39%	40%	43%	43%	41%	42%
CSC	17%	19%	20%	20%	20%	19%	18%	18%	19%
Env. & reg.	9%	10%	9%	9%	10%	12%	11%	11%	12%
Transport	21%	9%	8%	8%	8%	5%	6%	7%	5%
Public health	6%	7%	9%	7%	7%	6%	6%	7%	6%
Central	6%	6%	7%	6%	5%	6%	7%	7%	7%
Culture	3%	5%	4%	4%	5%	4%	4%	4%	5%
Housing	6%	3%	2%	3%	3%	3%	3%	2%	3%
Planning	3%	3%	2%	4%	2%	2%	2%	2%	1%

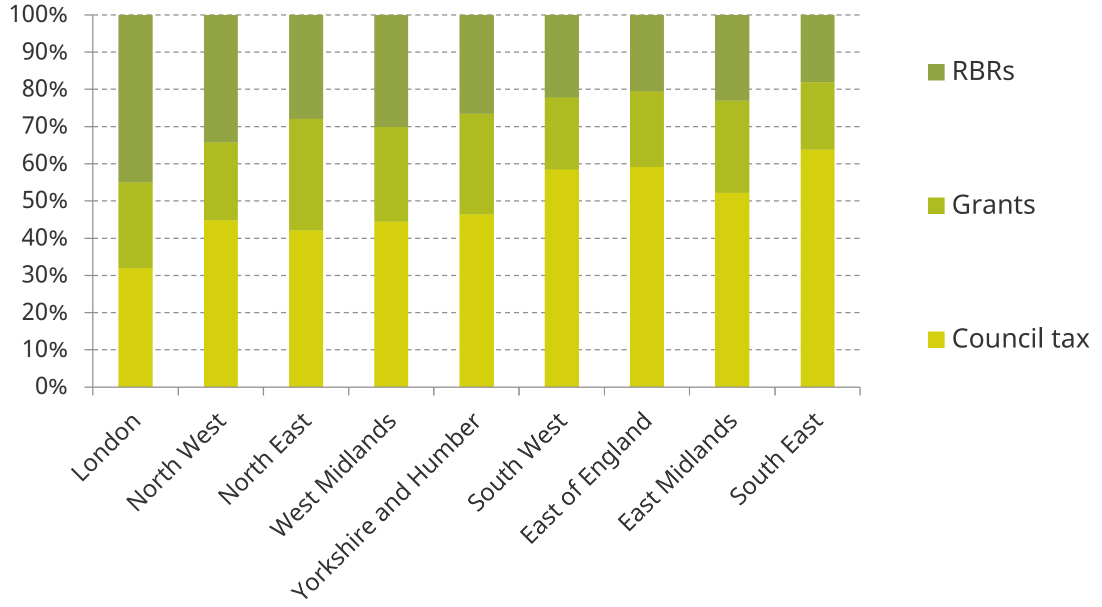
Note: As for Table 2.1. 'ASC' refers to adults' social care services; 'CSC' refers to children's social care services; and 'Env. & reg.' refers to environmental and regulatory services. Regions are ranked according to average net expenditure per person, from highest to lowest.

Source: As for Table 2.1.

There is also significant variation in the reliance on different revenue sources across different areas – with council tax shares (of fiscal revenues) ranging from 7% to 77% across England. As shown in Figure 2.1, councils in the South East, South West and East of England are budgeting to raise the most from council tax (as a share of their fiscal revenue), and rely less on grants and RBRs than councils in other regions. Given how high house prices are in London, it is perhaps surprising that councils in London raise the lowest share of their revenues from council tax. This partly reflects the fact that council tax is based on values in 1991 – before prices in London had pulled so far ahead of those in the rest of the country – and is regressive with respect to property values – limiting the amount that is raised from the most expensive properties in London. It also reflects the fact that councils in inner London in particular set low council tax rates. And that they are allocated relatively large amounts of grant and RBR funding, given that they have historically been assessed to have high spending needs.

In terms of different council types (shown in Figure 2.2), we see that while councils in shire county areas plan to raise 61% of fiscal revenues via council tax, councils serving metropolitan districts (such as Merseyside and Greater Manchester) plan to raise just 39% of their revenues in this way. This pattern reflects the fact that the latter tend to be relatively poor, with small council tax bases, meaning they can raise relatively little council tax even when setting tax rates close to the national average. As with London, it also reflects the fact that they have historically been assessed to have higher spending needs and are therefore allocated more grant and RBR funding.

Figure 2.1. Average contribution of different revenue sources to total fiscal revenues, by region, 2019–20



Note: See Appendix A for details on adjustments made to revenue and expenditure measures to exclude income/spending for police, fire and rescue, national park and education services. Values are drawn from local authority *budgets*, as out-turns for 2019–20 are not yet available. 'RBRs' refers to income from retained business rates and 'Grants' refers to income from central government grants. Regions are ranked according to average fiscal revenue per person, from highest to lowest.

Source: As for Table 2.1.

Figure 2.2. Average contribution of different revenue sources to total fiscal revenues, by council type, 2019–20

Note: See Appendix A for details on adjustments made to revenue and expenditure measures to exclude income/spending for police, fire and rescue, national park and education services. Values are drawn from local authority *budgets*, as out-turns for 2019–20 are not yet available. 'RBRs' refers to income from retained business rates and 'Grants' refers to income from central government grants. Authority types are ranked according to average fiscal revenue per person, from highest to lowest. City of London and Isles of Scilly are excluded.

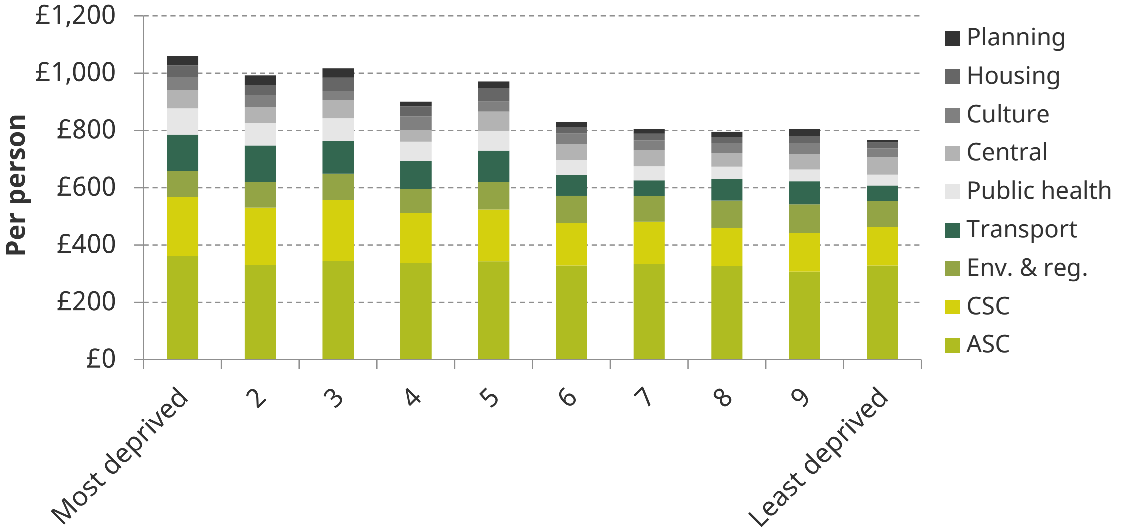
Source: As for Table 2.1.

Patterns across regions and council types reflect, to some extent, differences across councils serving areas with different levels of deprivation. Figures 2.3 and 2.4 focus on these differences, showing how the levels and composition of councils' budgeted spending and revenues, respectively, differ across councils when they are ranked according to the deprivation of their populations as measured by their average score on the English Index of Multiple Deprivation (2015). Overall, we see that councils that are more deprived are budgeting to have higher fiscal revenue, and to spend significantly more on services, in 2019–20. For example, the most deprived tenth of councils are budgeting to spend 1.38 times as much as the least deprived tenth of councils. Likewise, revenues per person are budgeted to be 1.33 times higher for the most deprived tenth of councils than for the least deprived.

We would expect residents of more deprived areas to have greater demand for at least some council services – such as social care and public health. But these patterns do not simply reflect differences in demand; they also reflect funding decisions taken by local and especially central government. The English local government system has historically allocated funding at least in part on the basis of assessments of the relative spending needs of different councils – and deprivation is strongly associated with these assessments. This is reflected in the fact that deprived councils have higher overall revenues despite raising less in council tax (see Figure 2.4). However, as we discuss further below, the funding system has actually become less redistributive since 2009–10: historically, the differences in spending levels were even greater.

Figure 2.3 also shows how budgeted spending allocations for different services vary across councils with different levels of deprivation. Measured as a share of their overall service budget, more deprived councils allocate *less* to adult social care and environment and regulation services, and *more* to public health and children's social care. They also

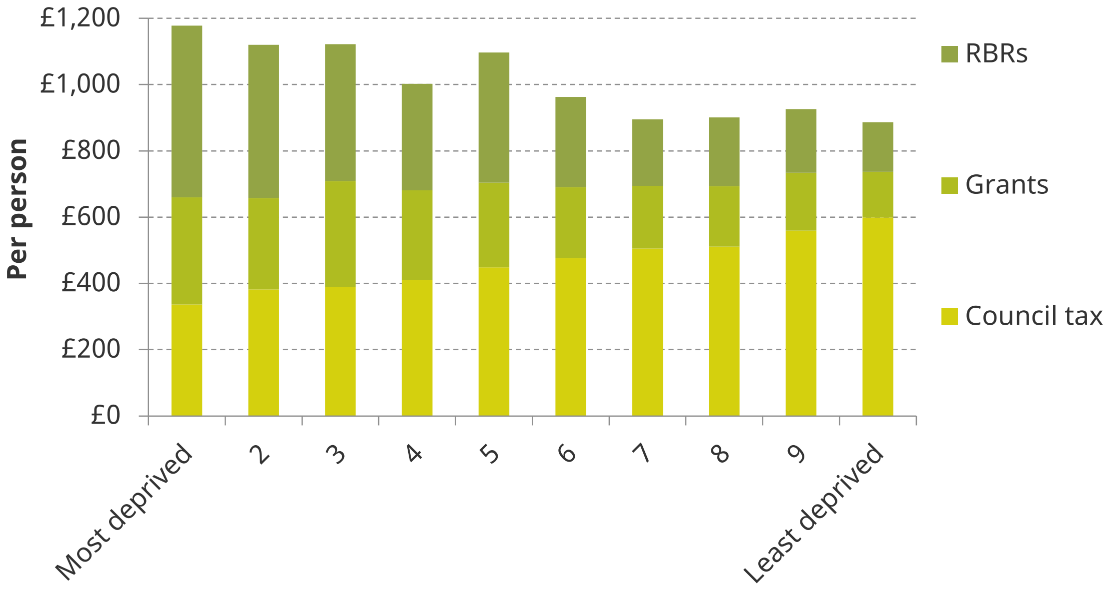
Figure 2.3. Net spending by service area and deprivation, 2019–20



Note: As for Table 2.1. 'ASC' refers to adults' social care services; 'CSC' refers to children's social care services; and 'Env. & reg.' refers to environmental and regulatory services. Councils are ranked according to deprivation – measured using average Index of Multiple Deprivation scores from 2015.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2015 and 2019e) and Office for National Statistics (2019a).

Figure 2.4. Average contribution of different revenue sources to total fiscal revenues, by decile of deprivation, 2019–20



Note: See Appendix A for details on adjustments made to revenue and expenditure measures to exclude income/spending for police, fire and rescue, national park and education services. Values are drawn from local authority *budgets*, as out-turns for 2019–20 are not yet available. 'RBRs' refers to income from retained business rates and 'Grants' refers to income from central government grants. Councils are ranked according to deprivation – measured using average Index of Multiple Deprivation scores from 2015.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2015 and 2019e) and Office for National Statistics (2019a).

allocate a slightly larger proportion of their overall budgets to planning, housing, and transport, although there is especially large variation across councils for these services. These patterns will reflect differences in the needs of local populations and in the prioritisation placed on different services by local politicians and voters.

Perhaps a more striking pattern, however, is that councils that are more deprived rely significantly more on both grant funding and retained business rates (in both cash terms and as a share of their fiscal revenues) than less deprived councils (Figure 2.4). The most deprived tenth of authorities expect to receive almost 45% of their fiscal revenue from RBRs, about 27% from grants, and 29% from council tax, while the least deprived tenth of councils receive only 17% from RBRs, about 16% from grants, but 68% from council tax. This variation reflects the fact that more deprived councils have lower council tax bases. In cash terms, RBR and grant funding for councils serving the most deprived areas is set to amount to £842 per person, with their own council tax revenues contributing £336 per person. In contrast, in the least deprived areas, RBR and grant funding is set to amount to £288 per person, with council tax contributing £599 per person.

It may be surprising that more deprived councils receive more funding in the form of RBRs than less deprived councils do. As discussed in more detail in Chapter 4, this reflects the fact that there is a system for redistributing business rates revenues between areas – with those councils assessed to need more business rates revenue than is raised in their local areas receiving transfers (or top-ups) from councils assessed to need less business rates revenue than is raised in their area.

What about charging for services?

Councils are also able to raise money by setting fees and charges on certain services – to help to fund their cost. Revenues from these sources are jointly referred to as sales, fees and charges (SFCs). While figures for 2019–20 are not yet available, in 2018–19 councils raised just over £11 billion from SFCs (in today's prices) – or approximately £202 per person – on services aside from police, fire and rescue, national park and education. In this report, we refer to fiscal revenues plus SFCs as councils' *total revenues*.

As with other sources of income, revenues raised from SFCs show considerable variation across different authorities – with SFCs' contribution to councils' total revenues ranging from 5% to 50%. And as with fiscal revenue, we see a strong correlation with deprivation: more deprived councils tend to raise less from SFCs (as a share of their total revenues) than councils that serve less deprived populations. To a large extent, this will reflect differences in the capacity to raise SFCs income – e.g. because of rules around the means-testing of adult social care services, and differing abilities and willingness to pay for some services among the local population. But it will also reflect different decisions by local politicians and officials about the balance to be struck between tax-funded and SFC-funded services.

2.2 How different is this picture from the one seen a decade ago?

As mentioned above, the landscape of council funding has changed significantly since 2009–10 – due to nearly a decade of austerity. However, in exploring these changes, it is important to note that councils' responsibilities have also changed over time. For example, public health responsibilities were only devolved to councils in 2013–14. Therefore, in assessing revenue and spending patterns over the past decade, we focus only on a subset of services for which councils' responsibilities have remained generally consistent over the period under analysis – namely, social care, housing, culture, environment and regulation, planning and development, and central and other services. We also focus only on the elements of those service areas that are comparable over time.

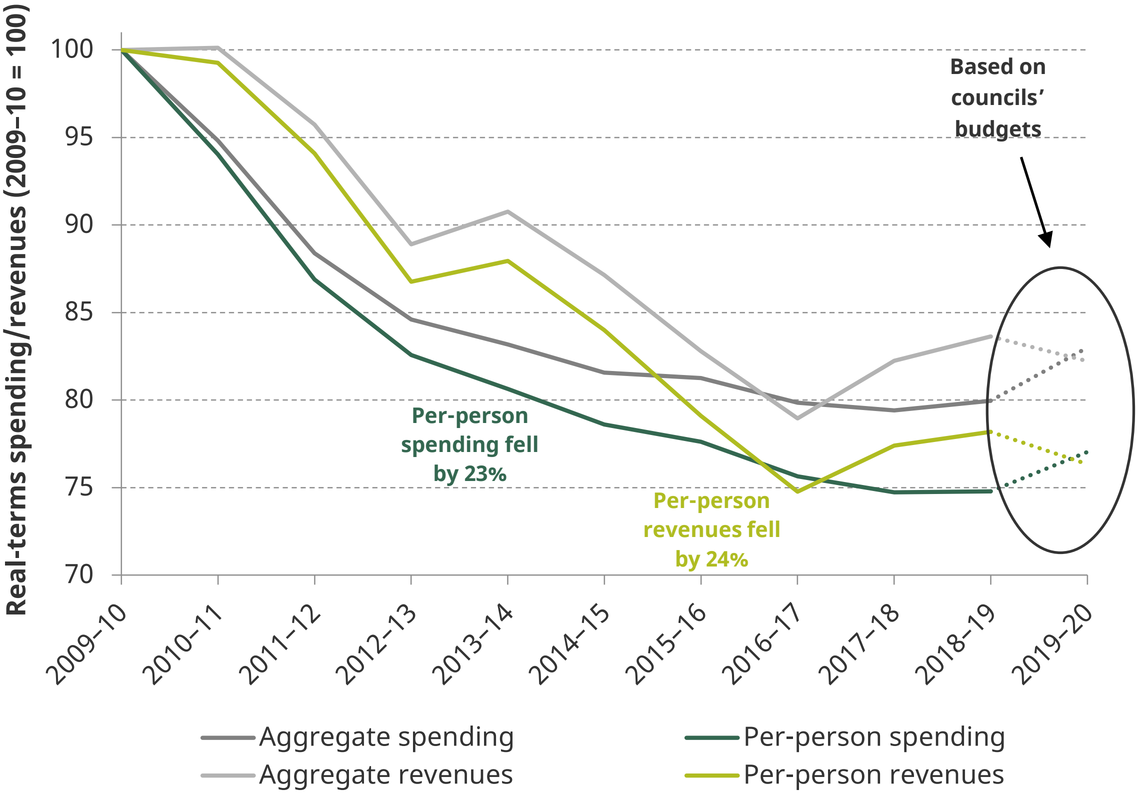
Figure 2.5 shows trends in revenue and spending levels between 2009–10 and 2019–20, while Table 2.3 picks these trends apart in a bit more detail – highlighting how councils' revenues from each of the three primary revenue sources changed over the same period. Focusing on councils' revenues, we see two notable patterns:

- a significant fall in the revenues available to councils to fund local services, with councils' budgets suggesting that fiscal revenues will have fallen by £11.4 billion (18%) by 2019–20 – or £290 per person (24%) (Figure 2.5);

- a shift from a reliance on grant funding to local revenue sources (Table 2.3).

These overarching patterns were driven primarily by the cuts to grant funding, especially between 2009–10 and 2015–16. Specifically, based on 2019–20 budgets, central government grant funding will be nearly £29 billion lower in 2019–20 (in real terms) than it was in 2009–10. This equates to a £560 or 77% fall in revenues per person.

Figure 2.5. Councils' fiscal revenue and net service spending levels between 2009–10 and 2019–20 (indexed to 2009–10 values)



Note: See Appendix A for details on adjustments made to exclude income/spending for police, fire and rescue, national park and education services, and other adjustments made to ensure revenue and expenditure measures are consistent over time. Values for 2019–20 are based on local authority *budgets*, as out-turns for 2019–20 are not yet available.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2019e) and Office for National Statistics (2019a and 2019b).

A portion of the decline in grant funding is explained by the introduction of the Business Rates Retention Scheme (BRRS) in 2013–14. Prior to this, business rates revenues were distributed to councils as part of the formula grant from central government. However, since then they are recorded as a separate source of funding – and one that depends on growth in local business rates revenue, unlike previously.[7] Even when focusing on grants and RBRs combined, though, we still see a £12 billion reduction over the past decade. This equates to £270 or 37% per person.

The impact of these cuts was exacerbated by two changes to council tax revenues. First, the government encouraged councils to freeze council tax in nominal terms between 2011–12 and 2015–16. A nominal freeze is a real-terms cut. Second, in 2013–14, the national council tax benefit was abolished and councils were made responsible for designing and funding their own schemes to help low-income households pay their council tax bills. Grants were increased by the equivalent of 90% of what the government had been forecasting to spend on council tax benefit in 2013–14. But unlike previously

[7] See Chapter 4 for further discussion.

when central government covered any increase in the cost of the benefit when council tax rates rise, councils now have to do so themselves.

Table 2.3. Council revenues per person by source – excluding income for education, police, fire and rescue, and national park services (2019–20 £)

Revenue source	2009–10	2015–16	2018–19	2019–20	Change, 2009–10 to 2019–20
Central grant funding	730	328	194	171	–77%
Formula grant	*520*	*184*	*27*	*14*	*–97%*
Specific & special revenue grants	*210*	*144*	*167*	*157*	*–26%*
Retained business rates	–	225	306	289	N/A
Council tax	495	416	457	476	–4%
Fiscal revenues excl. income for public health	**1,225**	**969**	**958**	**935**	**–24%**
Public health grant	–	60	54	52	N/A
Fiscal revenues incl. income for public health	**1,225**	**1,029**	**1,012**	**987**	**–19%**

Note: As for Figure 2.5.

Source: As for Figure 2.5.

As can be expected, these revenue losses resulted in falls in councils' service spending over the period. As shown in Figure 2.5, budgets suggest that net service spending will be £9.3 billion (or 17%) lower in 2019–20 than in 2009–10 – a decline of 23% in per-person terms. However, as is the case with fiscal revenues, most of the drop in spending occurred between 2009–10 and 2015–16: while net service spending per person fell at an average rate of 4.1% every year between 2009–10 and 2015–16, it is budgeted to fall at an average rate of only 0.2% per year between 2015–16 and 2019–20.

This partly reflects the fact that even though general grant funding has continued to be cut, its much lower levels mean these cuts have a smaller impact on overall funding than previously. However, it also reflects an increase in special and specific grants – including those ring-fenced for adult social care services – as well as increases in council tax revenues since the end of the council tax freeze. In fact, since 2015–16, council tax revenue per person has risen by nearly 15%, from £416 to £476 per person in today's prices. This reflects both an increase in the average tax rate (up 8%), and an increase in the tax base which partly reflects reductions in the generosity of councils' schemes to support low-income households with their council tax bills.[8] Indeed, the amount spent on these schemes is projected to have fallen by 4% in real terms between 2015–16 and 2018–19 despite real-terms increases in tax rates.[9]

8 See Adam, Joyce and Pope (2019).

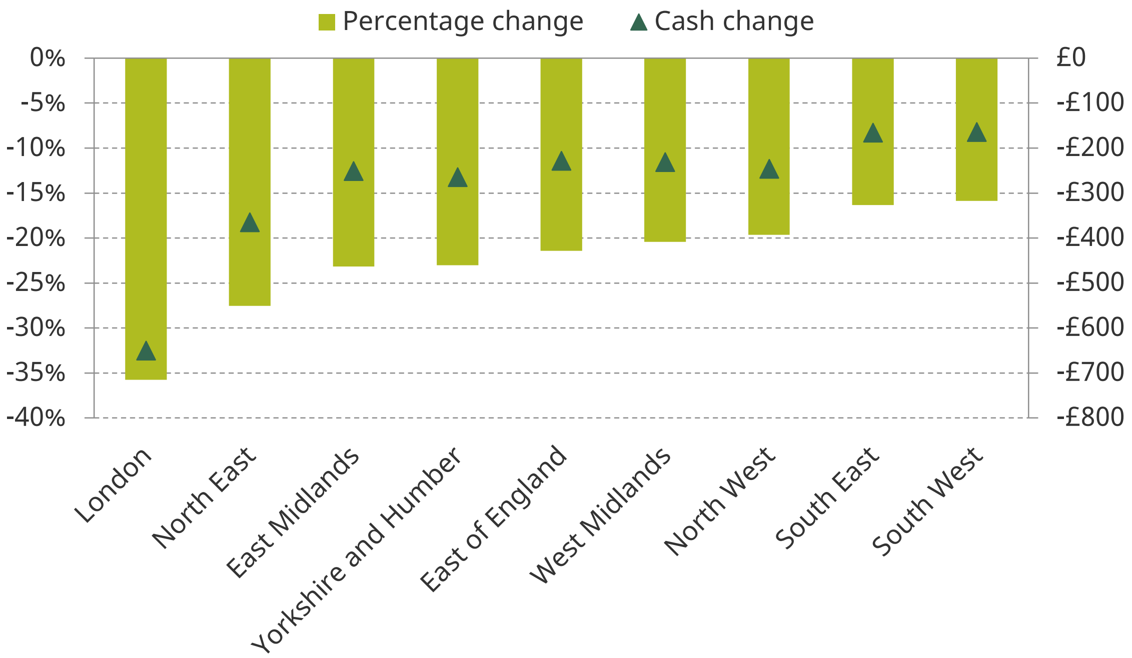
9 Authors' calculations using Ministry of Housing, Communities and Local Government (2018a).

To what extent have budget cuts differed across different parts of the country?

Figure 2.6 shows that cuts to revenues have varied significantly across England's regions. For example, by 2019–20, councils in London (the area that faced the largest cuts) will have seen cuts to their fiscal revenue that are 2.3 times larger in proportional terms than those faced by councils in the South West. Those in the North East will have faced a cut almost 1.7 times larger in proportional terms than those in the South West. As discussed below, to a large extent this reflects the way cuts to grant funding were made between 2009–10 and 2015–16. But the notable declines in revenues and spending seen in London also reflect the fact that the government significantly reduced funding for the Greater London Authority to subsidise public transport (with fares making up the difference), and the fact that councils in London have, on average, increased council tax by less than those in the rest of England over this period.

Figure 2.7 shows that these big differences in reductions in revenue have translated into big differences in reductions in net spending on local services. In particular, cuts in London (£486 or 32% per person) are estimated to be more than three times as large in cash terms and twice as large in proportional terms as those in the South West (£128 or 15% per person). More generally, cuts have been larger in northern regions than in southern ones (London excepted).[10]

Figure 2.6. Change in fiscal revenue per person between 2009–10 and 2019–20, by region (2019–20 £ and %)

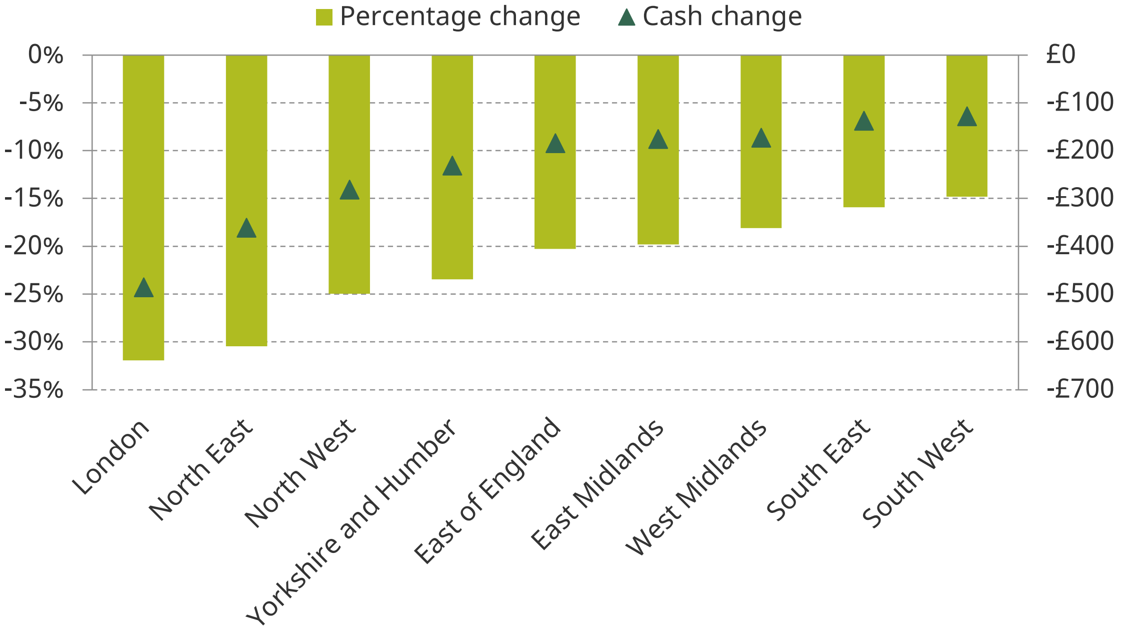


Note: As for Figure 2.5. Regions are ranked according to the average size of cuts to fiscal revenue per person, from largest to smallest, in proportional terms.

Source: As for Figure 2.5.

[10] By way of comparison, spending per person on non-education services has fallen by 15% in Scotland. See Appendix B for further details.

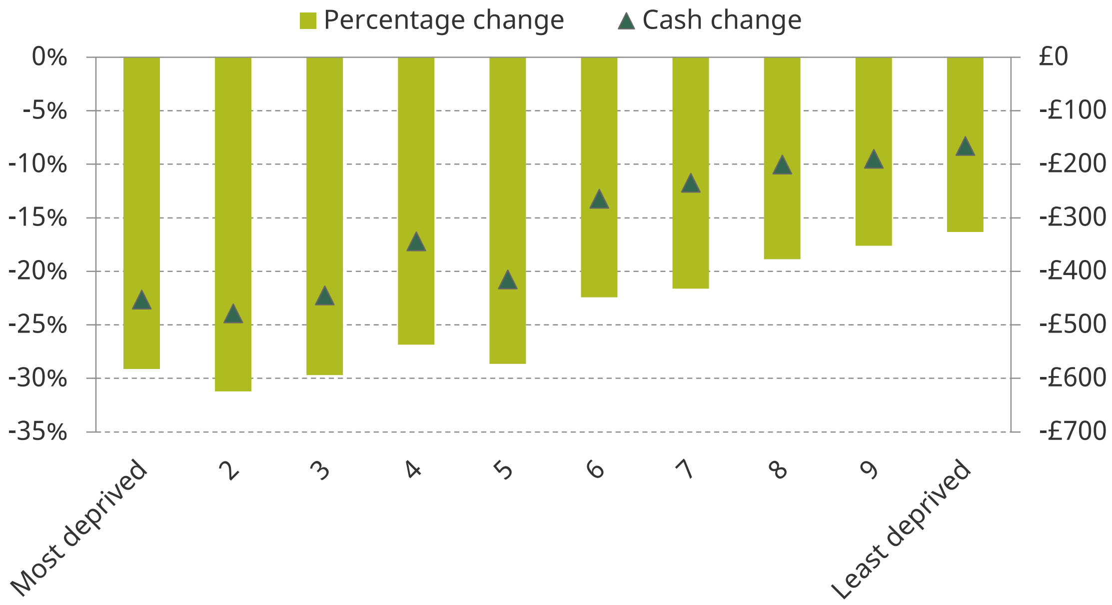
Figure 2.7. Change in net service spending per person between 2009–10 and 2019–20, by region (2019–20 £ and %)



Note: As for Figure 2.5. Regions are ranked according to the average size of cuts to net service expenditure per person, from largest to smallest, in proportional terms.

Source: As for Figure 2.5.

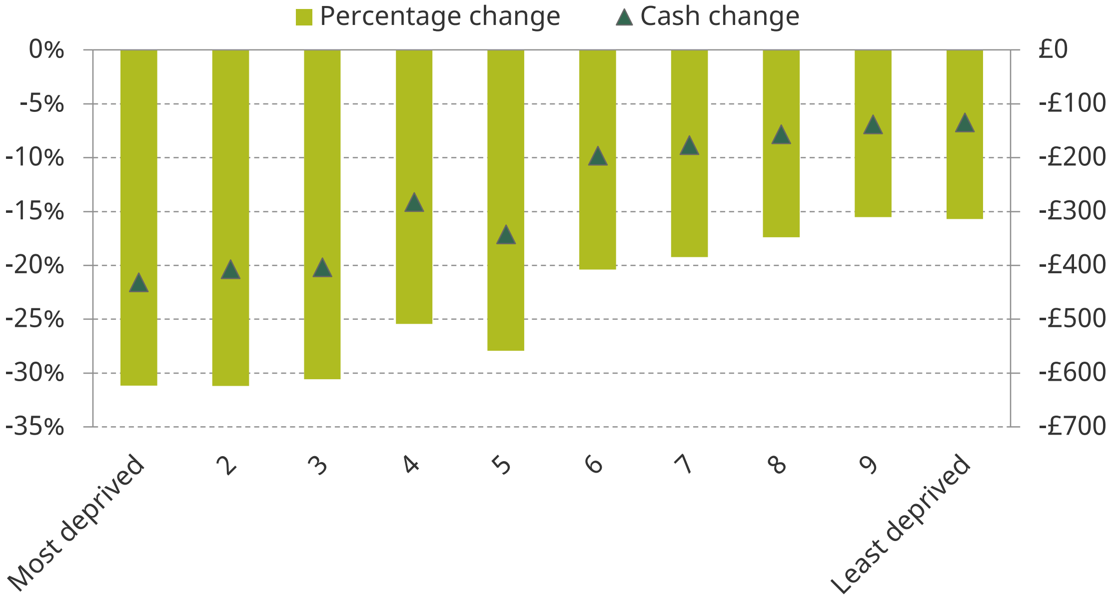
Figure 2.8. Change in fiscal revenues per person between 2009–10 and 2019–20, by decile of deprivation (2019–20 £ and %)



Note: As for Figure 2.5. Councils are ranked according to deprivation – measured using average Index of Multiple Deprivation scores from 2015.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2015 and 2019e) and Office for National Statistics (2019a and 2019b).

Figure 2.9. Change in net spending per person between 2009–10 and 2019–20, by decile of deprivation (2019–20 £ and %)



Note: As for Figure 2.5. Councils are ranked according to deprivation – measured using average Index of Multiple Deprivation scores from 2015.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2015 and 2019e) and Office for National Statistics (2019a and 2019b).

Underlying these regional patterns is the fact that cuts have been larger in more deprived council areas – which are concentrated in London and the north. Figures 2.8 and 2.9 highlight these patterns by ranking councils according to deprivation, and showing how changes in fiscal revenues and spending are expected to differ between more and less deprived councils between 2009–10 and 2019–20. Both show a striking correlation between deprivation and the scale of cuts councils have faced – with more deprived councils facing larger cuts. For example, while the most deprived tenth of councils saw their fiscal revenues per person decline over the period by just under 30% (or £453 per person), the least deprived tenth of councils saw them fall by only 16% (or £166 per person). Likewise, cuts to net service expenditure ranged from 31% (£432 per person) for the most deprived councils to 16% (£134 per person) for the least deprived.

However, this relationship is only evident over the period 2009–10 to 2015–16. In more recent years (i.e. 2015–16 to 2019–20), we instead find that changes in councils' revenues are unrelated to councils' degree of deprivation.

Why do we see this regressive pattern to the cuts? And what are the implications for the funding system?

These patterns ultimately reflect the fact that more deprived councils are also more dependent on grant funding from central government. And between 2009–10 and 2015–16, cuts to grants did not fully take account of the fact that some councils relied much more on the grants than others (and in the last two years of that period failed to take this into account at all). This meant that more deprived councils (for which grants made up a larger portion of their revenues) ended up seeing larger relative cuts in their overall revenues.[11]

Reforms to the allocation of grants since 2015–16 have factored in councils' grant-dependence – ending this regressive pattern of cuts. However, the earlier pattern has not been unwound. This means the extent to which the funding system redistributes from areas with characteristics likely associated with lower spending needs (and/or high revenue-raising capacity) to those with characteristics associated with higher needs (and/or low revenue-raising capacity) has been reduced over the last decade.

For example, revenues per person for the most deprived tenth of councils have fallen from 1.53 to 1.30 times the average for the least deprived between 2009–10 and 2019–20. Likewise, spending per person for the most deprived councils fell from 1.62 to 1.32 times the average for the least deprived.[12]

It is not possible to say whether the current or historical relative funding levels are more appropriate without a robust assessment of the relative spending needs of different councils and a view on the extent to which it is appropriate to redistribute funding to align with those assessments. The latter is clearly an inherently subjective question where views will differ. But the former is also lacking currently – the latest needs assessment was carried out in 2013–14 using formulas originally devised in the 2000s – and is very challenging to do, both technically and conceptually. In particular, we do not observe spending needs, so must instead either assume them or infer them from something we do observe such as the relationship between actual spending and local characteristics.

Harris and Phillips (2018) discussed in depth the challenges in such inference. A particular issue arises when trying to infer spending needs from the relationship between council-level spending and council-level characteristics, as the government plans for administrative, cultural, environmental, housing and planning services: these relationships will reflect the funding allocations given to councils with different characteristics. Thus, for example, using recent data to calculate spending needs will lead to lower estimates of relative needs for deprived councils and higher estimates of relative needs for less deprived councils than using data from 2009–10 simply because of the pattern of cuts seen over the intervening decade. In other words, using the most recent data to assess needs would entrench the bigger cuts seen in more deprived areas over the past decade into *future* assessments of their spending needs and therefore, at least to some extent, their funding. But using earlier data would still be entrenching funding decisions taken up to that earlier point. Hence it is not really possible to say whether current or historical spending patterns are more closely aligned with differences in spending needs.

How have cuts varied across local services?

In addition to variation in cuts across different areas, Table 2.4 shows that spending on different services has been cut to different extents since 2009–10.

[11] For a fuller discussion of this issue, see section 2.2 of Amin-Smith et al. (2016).

[12] Note that these figures differ from those shown in Figures 2.3 and 2.4 because they exclude public health spending to ensure consistency over time (public health was only transferred to councils in 2013–14). Public health spending per person in the most deprived tenth of councils is budgeted to be 2.4 times higher than in the least deprived tenth of councils in 2019–20. This explains why when excluding this service area, spending per person in the most deprived tenth of councils is 1.32 times higher than in the least deprived tenth; but when including this service area, it is 1.38 times higher.

Table 2.4. Net spending per person by service (2019–20 £ per person)

Service	2009–10	2015–16	2018–19	2019–20	Change, 2009–10 to 2019–20
Social care services	504	465	479	481	−5%
Other services	540	345	301	323	−40%
ASC	359	321	325	333	−7%
CSC	145	145	154	148	2%
Env. & reg.	120	98	91	92	−24%
Transport	148	86	70	86	−42%
Central & other	80	56	51	57	−29%
Culture	78	49	39	37	−52%
Housing	62	32	30	30	−52%
Planning	52	24	21	21	−59%
Net service spending excl. public health	**1,044**	**810**	**781**	**804**	**−23%**
Public health	–	63	59	58	N/A
Net service spending incl. public health	**1,044**	**873**	**840**	**862**	**−17%**

Note: As for Figure 2.5. Labels for different service areas are shortened for ease of presentation. 'ASC' refers to adults' social care services; 'CSC' refers to children's social care services; 'Env. & reg.' refers to environmental and regulatory services; 'Transport' refers to 'highways and transport services'; 'Culture' refers to 'culture and related services'; 'Planning' refers to 'planning and development services'; and 'Central & other' and 'Central' are used interchangeably to refer to combined spending on both central services and other services (according to local authority out-turns).

Source: As for Figure 2.5.

In particular:

- Spending on social care services has been relatively protected from cuts, with overall spending per person down 5% compared with 40% for other service areas since 2009–10. As a result, spending on social care has increased from 48% to 60% of total spending on the services included in Table 2.4 (but excluding public health), over this period.

- Within social care services, spending on adult social care is budgeted to be 7% lower per person in 2019–20 than in 2009–10. Spending has increased over the last four years though and is 4% higher per person than in 2015–16, a period that has seen increased amounts of ring-fenced grant and council tax funding for adult social care services.

- Spending on acute children's social care services is budgeted to be 2% higher per person in 2019–20 than in 2009–10. It seems likely that the increase will actually be significantly bigger – as we discuss in Section 2.4, spending on this service has been consistently higher than initially budgeted for in recent years. (Indeed, budgeted spending per person for 2019–20 is 4% below what was actually spent in 2018–19.)

- In cash terms, the largest cuts have been made to transport services (£62 per person), reflecting significant cuts to subsidies for public transport in Greater London and other metropolitan areas. In proportional terms, the largest cuts have been made to what were already the three smallest areas of spending for local government – culture (52%), housing (52%) and planning (59%).

- The large bulk of the cuts to these other services were made between 2009–10 and 2015–16. Since then, cuts have slowed significantly, especially for housing and planning.

As we discuss in Section 2.4, these changes reflect councils prioritising service areas with rising demands and that enable councils to fulfil the statutory duties placed on them – such as safeguarding vulnerable adults and children. This has meant bigger cuts to more discretionary services, as well as those where there is scope to raise more from SFCs.

How have SFCs fared in comparison?

As shown in Table 2.5, SFC revenues have held up better than both central grant funding and fiscal revenues, and in per-person terms they fell by only 5% between 2009–10 and 2018–19. As a result, total revenues per person (fiscal revenue plus SFCs) fell by only 19% rather than the 22% decline seen for fiscal revenues. Likewise, spending (per person) inclusive of SFC-financed service provision fell by less than net expenditure. As a consequence, SFCs' contribution to total revenues and total service provision (for the portion of revenue and spending focused on here) increased from 15% to 17%, and from 17% to 20%, respectively over the period.

This income stream therefore appears to have helped to mitigate the negative impact of the funding cuts on councils' ability to provide local services.

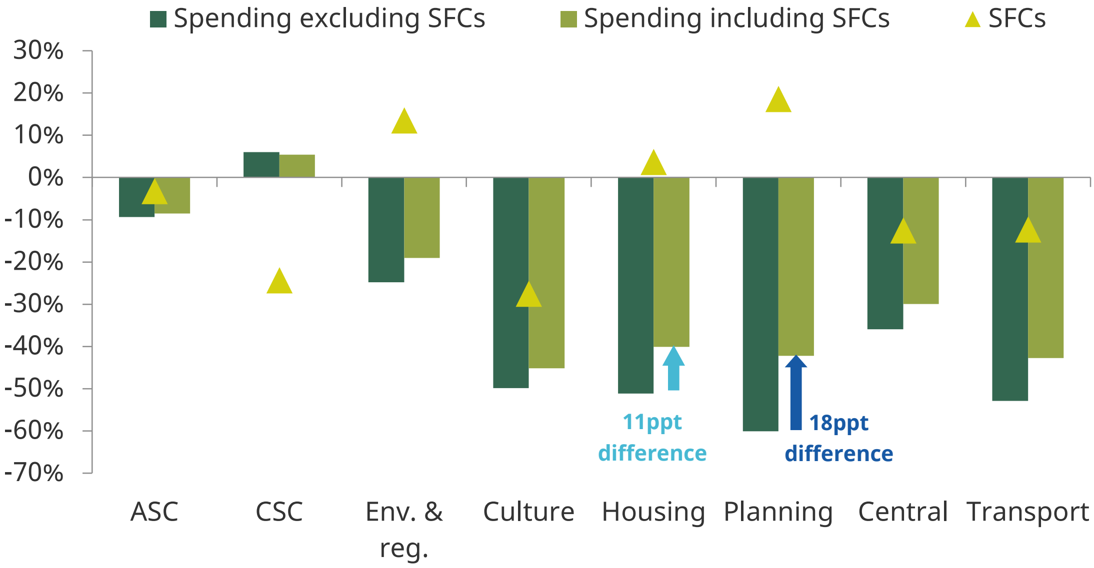
Table 2.5. Revenues from SFCs (2019–20 £ per person)

	2009–10	2015–16	2018–19	Change, 2009–10 to 2018–19
Total income from SFCs	**209**	**189**	**198**	**–5%**
Fiscal revenue	1,225	969	958	–22%
Fiscal revenues plus SFCs	**1,434**	**1,158**	**1,156**	**–19%**
Net service expenditure	1,044	810	781	–25%
Net service expenditure plus SFCs	**1,253**	**999**	**979**	**–22%**

Note: As for Figure 2.5. SFCs from police, fire and rescue, national park, education and public health services excluded.

Source: As for Figure 2.5.

Figure 2.10. Change in net spending per person between 2009–10 and 2018–19 (%), by service area



Note: As for Table 2.4. SFCs from police, fire and rescue, national park, education and public health services excluded.

Source: As for Figure 2.5.

But, as shown in Figure 2.10, this pattern has differed across services. For example, we find that spending per person on planning and development fell by 18 percentage points less once service provision funded by SFCs is accounted for – with SFCs for this service area increasing by 19%. On the other hand, SFCs have had almost no impact on spending pressures for social care. This is because councils raise very little from SFCs for these services relative to the overall amount spent.

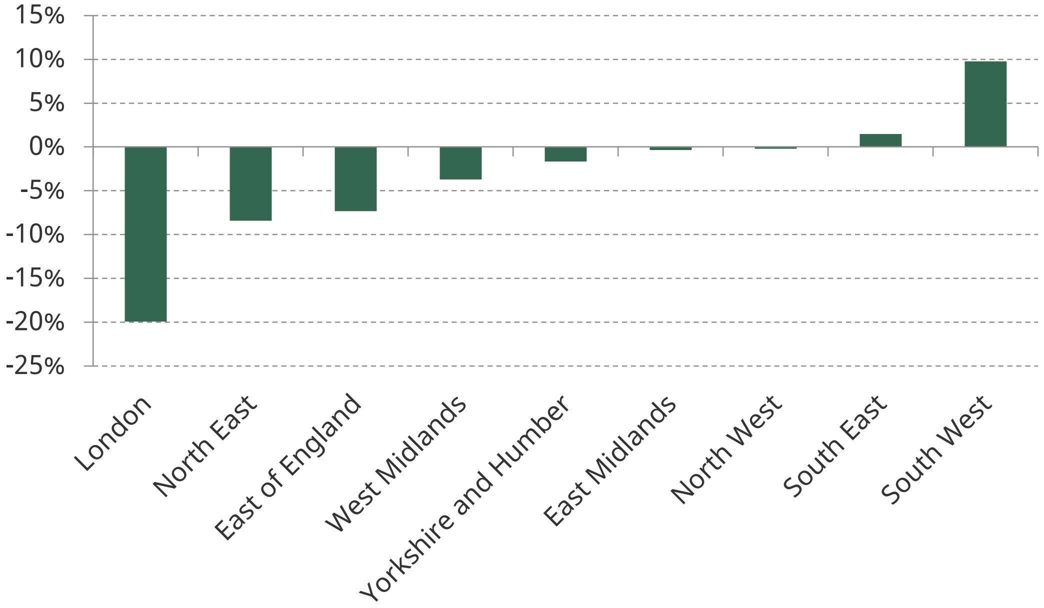
Moreover, as SFCs on services aside from social care actually fell by far less than net spending on these services, the contribution of SFCs to service provision for this service grouping (measured as net expenditure on these other services plus SFCs for the same services) increased from 22% to 32%. No similar increase is evident in the contribution of SFCs to social care service provision.

2.3 How different are the choices councils have made in the face of funding cuts?

As well as facing different-sized cuts in their revenues and hence overall spending, different councils have made different decisions about the extent to which to protect or cut different service areas.

Figure 2.11 shows that cuts to social care services, for instance, vary significantly by region. For example, while budgets imply an *increase* in spending on adults' and children's social care services per person of 10% between 2009–10 and 2019–20 in the South West, they imply a *cut* of 20% in London. Figures for other regions range between an increase of 1% in the South East through to a cut of 8% in the North East, with most of the differences between regions driven by differential changes to adult social care spending.

Figure 2.11. Percentage change in adults' and children's social care spending per person by region, 2009–10 to 2019–20



Note: As for Figure 2.5. Regions are ranked according to the average size of changes to per-person net service expenditure on social care, from smallest to largest.

Source: As for Figure 2.5.

To what extent are the different decisions made by councils explained by the size of the funding cut they faced?

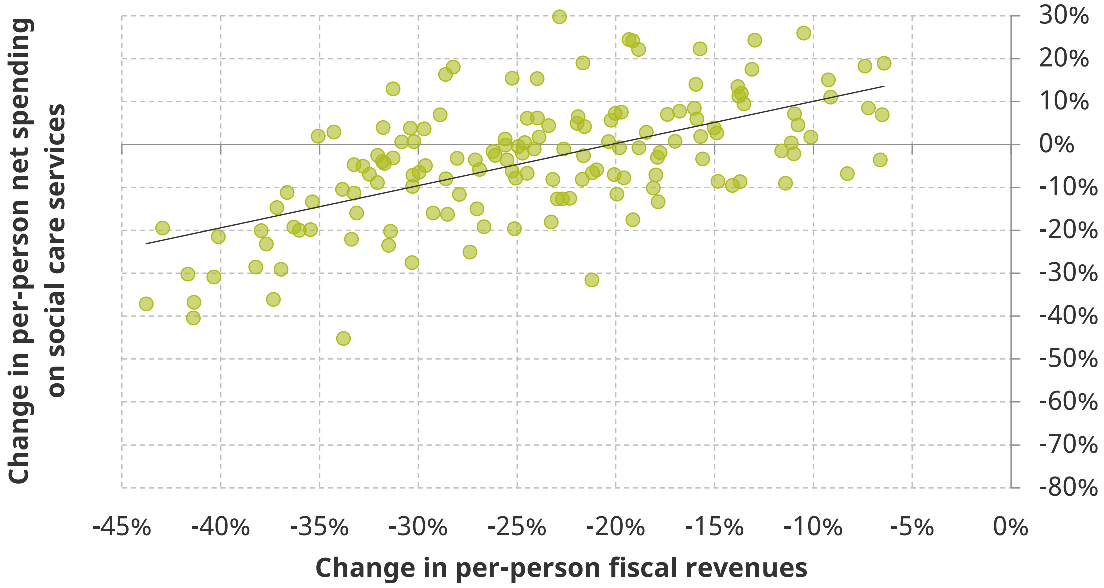
To some extent, differences of this sort reflect differences in the scale of overall funding cuts faced by councils. This is illustrated by Figures 2.12 and 2.13, which show a (statistically significant) relationship between the size of cuts to councils' fiscal revenues and the cuts they have made to social care and other services, respectively: in both cases, bigger cuts to fiscal revenues are associated with bigger cuts to spending.

However, the figures also show two further key points:

- First, for a given cut in fiscal revenue, there is significant variation in the scale of cuts to both social care services and other services. For example, in areas where councils' fiscal revenues will have fallen by between 14% and 16% per person between 2009–10 and 2019–20, the change in social care spending per person ranges from a cut of 10% to an increase of 22%, and the change in spending on other services per person varies from a cut of 51% to a cut of 26%. Indeed, changes in fiscal revenue statistically explain only 37% of the variation in changes to social care spending and just 8% of the variation in changes to other service spending.

- Second, the relationship between cuts in fiscal revenue per person and *average* cut in spending per person is much stronger for social care than it is for other services. For example, the trend line in Figure 2.12 shows that a council facing a 10 percentage point larger fall in fiscal revenues per person will have, on average, made a 10 percentage point larger cut to social care spending per person. However, the trend line in Figure 2.13 indicates it will have, on average, made only a 3.5 percentage point larger cut to spending on other services. Indeed, when looking specifically at changes in spending on housing, cultural and transport services, there is no relationship at all with cuts to fiscal revenues.

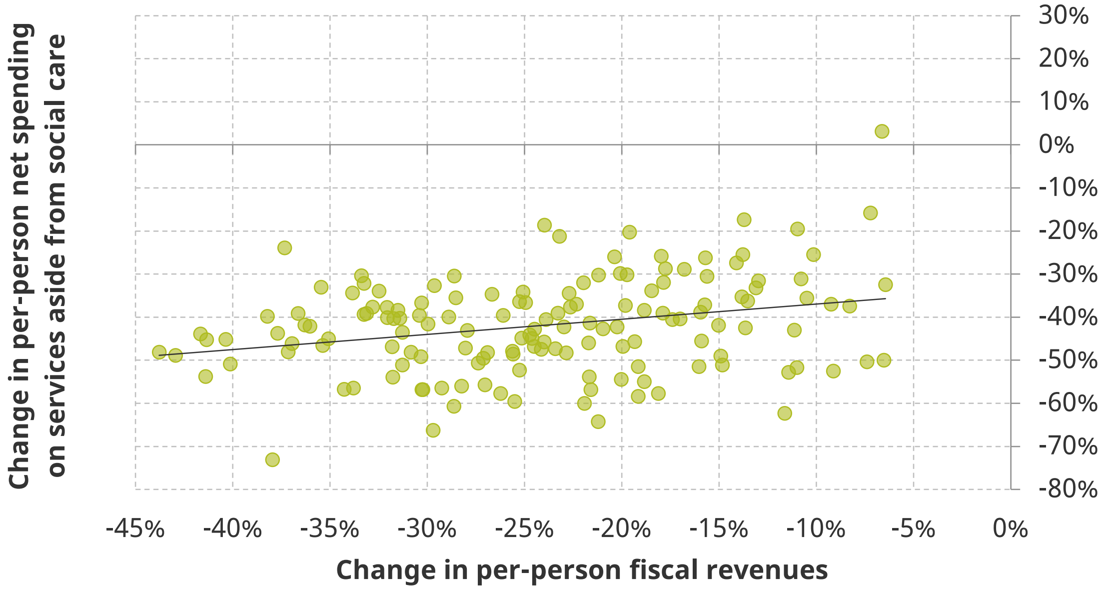
Figure 2.12. Relationship between changes in councils' fiscal revenues and changes in councils' net spending on social care, 2009–10 to 2019–20



Note: As for Figure 2.5. City of London and Isles of Scilly are excluded.

Source: As for Figure 2.5.

Figure 2.13. Relationship between changes in councils' fiscal revenues and changes in councils' net spending on services aside from social care, 2009–10 to 2019–20



Note: As for Figure 2.5. City of London and Isles of Scilly are excluded.

Source: As for Figure 2.5.

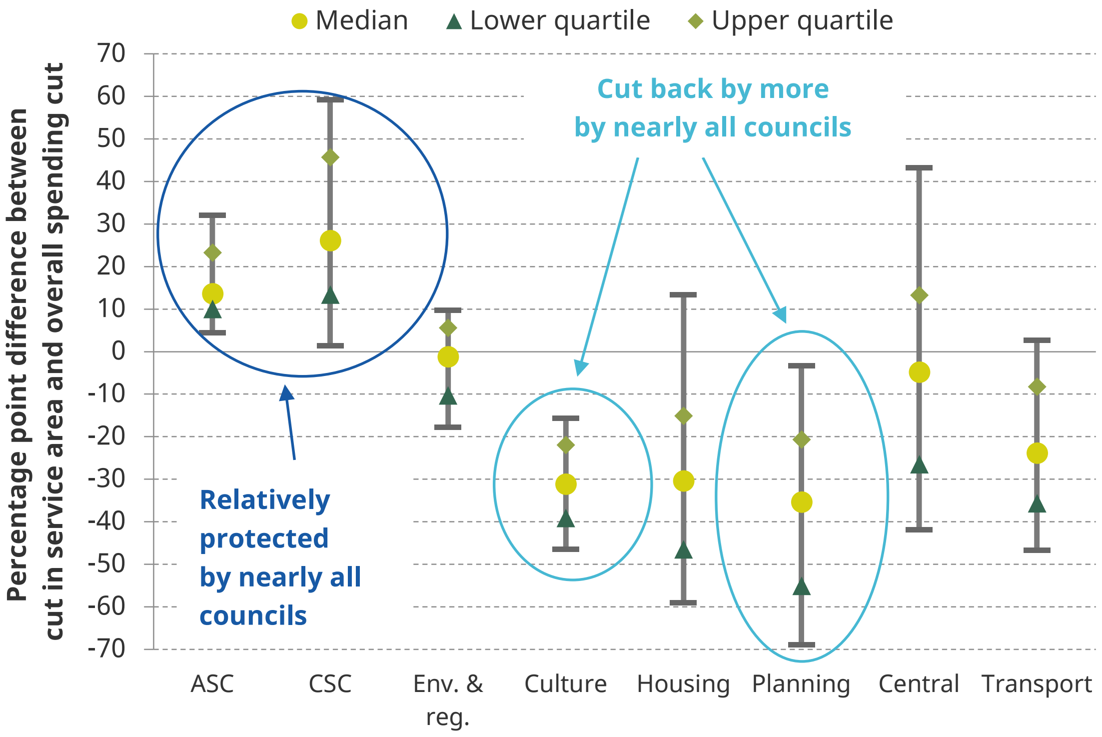
This means that irrespective of the cuts to fiscal revenues in an area, councils have generally made significant cutbacks to spending on other services over the last 10 years – with these only a little larger, on average, in council areas where revenues have fallen more. This implies that in areas where cuts to fiscal revenues have been larger, most of the impact of this has been felt in bigger cuts to spending on social care services.

To what extent do the services different councils are protecting vary?

But it remains the case that virtually all councils have relatively protected social care services from spending cuts.

This is illustrated in Figure 2.14, which shows how spending on different services has changed relative to overall spending levels for different councils. A positive value means that a council cut spending on a particular service by less than the cut it made to overall service spending per person – perhaps even increasing spending on that service. A negative value means that a council cut spending on a particular service by more than the cut it made to overall service spending per person. In short, the figure shows the extent to which different service areas have been relatively protected or relatively cut back – and how much this has varied across councils.

Figure 2.14. The protection of net spending on specific services relative to local authorities' overall spending cuts, 2009–10 to 2019–20



Note: As for Table 2.4. The graph plots points in the distribution of the percentage point difference between the percentage change in spending per person chosen by an authority for a specific service area and the overall percentage cut to spending per person over the period for a local authority. The dark grey bars show the range of the distribution, excluding the 10% largest and 10% smallest differences.

Source: As for Figure 2.5.

It shows that:

- Both adults' and children's social care were relatively protected from cuts in nine-in-ten council areas between 2009–10 and 2019–20. Indeed, the median council cut adult social care spending per person by 14 percentage points less than its average cut in spending; and the median council cut children's social care spending per person by fully 26 percentage points less than average.

- In contrast, spending on both culture and planning was cut back by more than average in more than nine-in-ten council areas. The median council cut the former by 31 percentage points more than its overall budget and the latter by 35 percentage points more.

- For other service areas, there is more variation across councils in decisions over whether to relatively protect or cut back a service area. For instance, in almost half of council areas, spending on central services and environmental services has been relatively protected, but in just over half, it has been cut by more than average. And, for example, while one-in-four councils have cut spending on central services by at least 13 percentage points *less* than their overall spending, another one-in-four have cut it by at least 26 percentage points *more* than average.

- Even where nearly all councils have decided to relatively protect or cut back spending on a service, the extent of the protection or cutbacks has varied significantly. For example, while in one-in-four council areas, spending on children's social care has been cut by *at least* 46 percentage points less than their overall cut in spending (often implying sizeable increases in spending), in another one-in-four, it has been cut by at most 13 percentage points less.

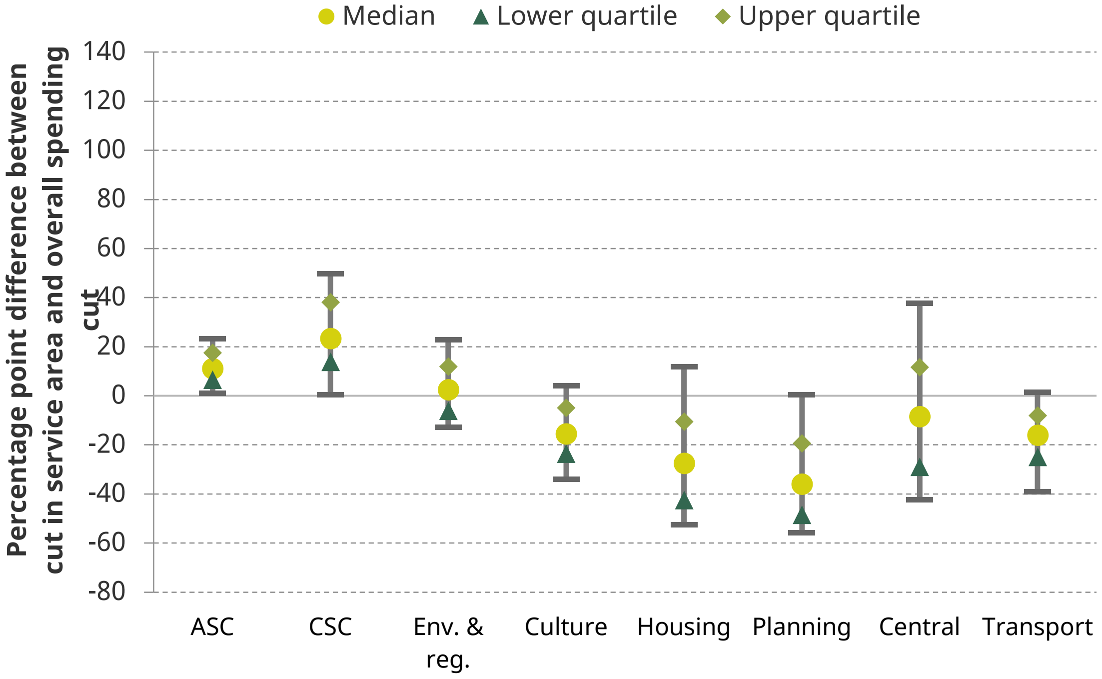
Thus local choices – whether reflecting different local pressures or preferences – are clearly an important factor in how spending on different services has changed at a local level.

It is also clear that the extent to which different services are relatively protected or cut back has changed over time. This is highlighted in Figures 2.15 and 2.16, which capture the same measure as Figure 2.14, but for two sub-periods: 2009–10 to 2015–16 and 2015–16 to 2019–20. These show that:

- The extent to which spending on social care services has been prioritised over other spending is lower over the last four years than it was between 2009–10 and 2015–16. Thus, while most councils have relatively protected adults' and children's services over the last four years, a sizeable minority have not. For example, budgets for 2019–20 imply one-in-four councils have cut adult social care spending by at least 1 percentage point more than overall spending. The equivalent figure for children's social care is 5 percentage points, although as discussed in the next section, this year's budget seems likely to be an underestimate of what councils will spend on this service.

- It is important to remember that the overall scale of cuts seen since 2015–16 is much lower than for the preceding six years though. This means that *absolute* spending has been protected more since 2015–16, especially for adult social care (see Table 2.4 above).

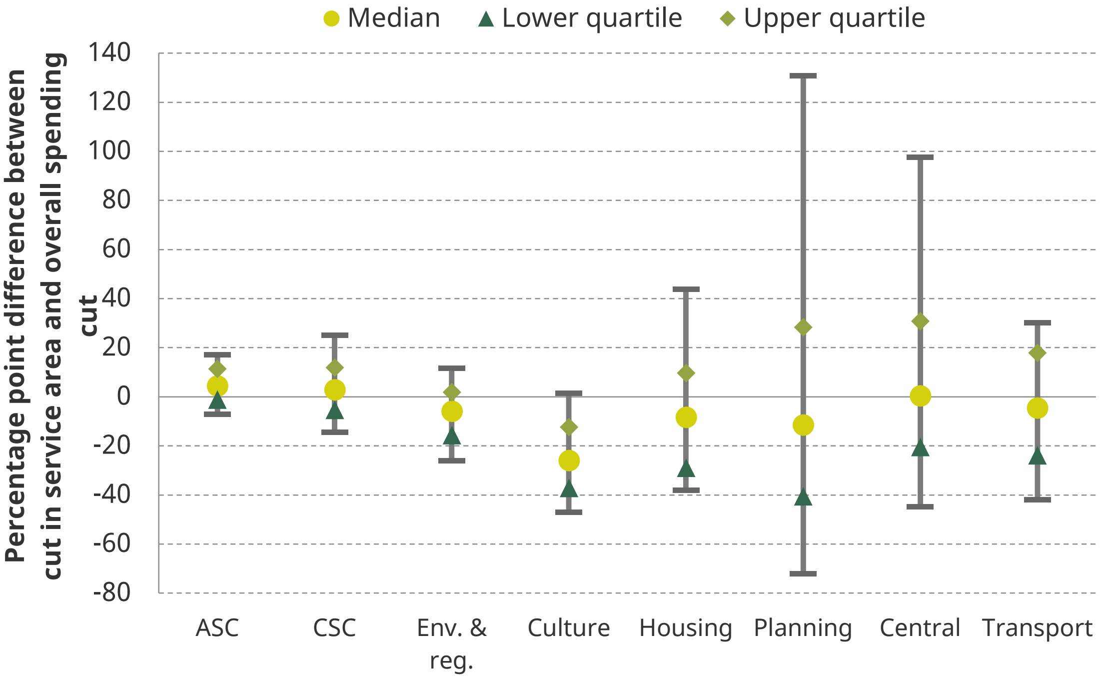
Figure 2.15. The protection of net spending on specific services relative to local authorities' overall spending cuts, 2009–10 to 2015–16



Note: As for Figure 2.14.

Source: As for Figure 2.5.

Figure 2.16. The protection of net spending on specific services relative to local authorities' overall spending cuts, 2015–16 to 2019–20



Note: As for Figure 2.14.

Source: As for Figure 2.5.

- While housing and planning services saw larger-than-average cuts in spending in a large majority of council areas between 2009–10 and 2015–16, these services were relatively protected by a growing minority of councils over the last four years. To some extent, this reflects the rise in homelessness prevention up the policy agenda, and additional devolved spending on local economic development. But it may also reflect some councils finding it difficult to sustain the large cuts made between 2009–10 and 2015–16.

- Culture and related services continue to be an area where the vast majority of councils (around 90%) have cut spending by more than average.

Are there any notable patterns in the kind of councils relatively protecting or cutting back different services?

After controlling for the overall scale of cuts in an area, we find that:

- Councils in London protected spending on adult social care relatively less than councils elsewhere in the country over the period 2009–10 to 2019–20 as a whole. In particular, conditional upon the size of the cuts faced by different councils (as well as deprivation levels and initial spending levels), our analysis suggests councils in London cut adult social care spending per person by 10 percentage points more than average.[13]

- In contrast, after controlling for the same set of variables (and whether an area has two-tier local government), we estimate that councils in the East Midlands, South West, and Yorkshire and the Humber relatively protected adult social spending by more than councils in other regions.

- Furthermore, London councils appear to have made the decision to leave adult social care relatively unprotected in order to protect other services – namely, planning and development, and housing. Specifically, we find that, on average, a council in London made a 36 percentage point smaller cut to spending on planning and development services than a comparable authority in another area – even after accounting for differences in deprivation and the magnitude of councils' relative change in fiscal revenue.[14]

- We also find that a strong positive association between deprivation and councils' cuts to adult social care and to environment and regulation remains. This suggests that more deprived councils protected these services to a lesser degree than their less deprived counterparts. Although why this is the case is beyond the scope of this analysis.

How much variation is there in changes in income from sales, fees and charges across councils?

In addition to seeing different cuts to their fiscal revenues and making different cuts to different services, councils have seen their income from SFCs change in very different ways. For example, between 2009–10 and 2018–19 (the latest year for which figures on SFC income are available), changes in income from SFCs per person ranged from a fall of 73% to increases of over 400%.

[13] See Table C1 in Appendix C.

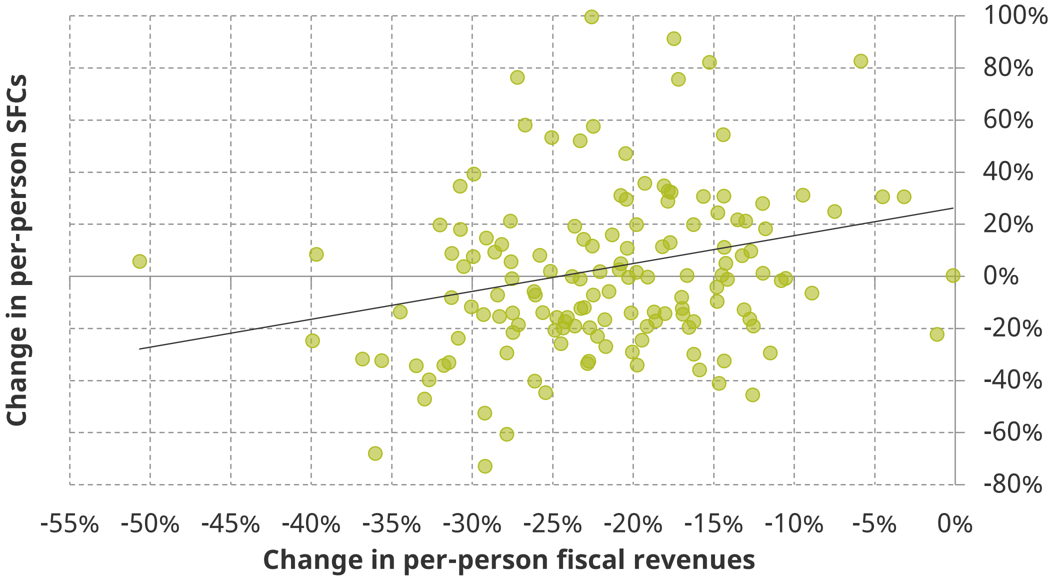
[14] See Table C.2 in Appendix C.

- Councils in London saw the largest declines in SFCs per person over the period, of 18%, while SFCs for councils in the South East and North East actually increased by 12% and 16% respectively.
- However, differences across regions and different types of authorities account for only about 6% of the variation we see across councils in changes to SFC income.
- Moreover, there is no statistically significant relationship between councils' deprivation level and the percentage change to their SFC income between 2009–10 and 2018–19.

Councils that faced larger cuts in their fiscal revenues per person saw larger falls (or smaller increases) in their SFC income per person over the period, as shown in Figure 2.17. In particular, a council that faced a 10 percentage point larger cut to fiscal revenues per person will, on average, have seen SFCs decrease by 11 percentage points more (or increase by 11 percentage points less).

This relationship is not statistically significant once we control for how much councils raised in SFCs in 2009–10 though. Instead we find a statistically significant negative relationship between initial SFC income and subsequent changes in income (see Figure 2.18). For example, councils with income from SFCs 20% higher than the national average in 2009–10 have seen income from SFCs fall by 4 percentage points more (or increase by 4 percentage points less) since 2009–10 than councils with income from SFCs at the national average.[15] Similarly, those councils that relied more on SFCs as a share of their total

Figure 2.17. Association between changes in fiscal revenue and changes in income from SFCs, 2009–10 to 2018–19

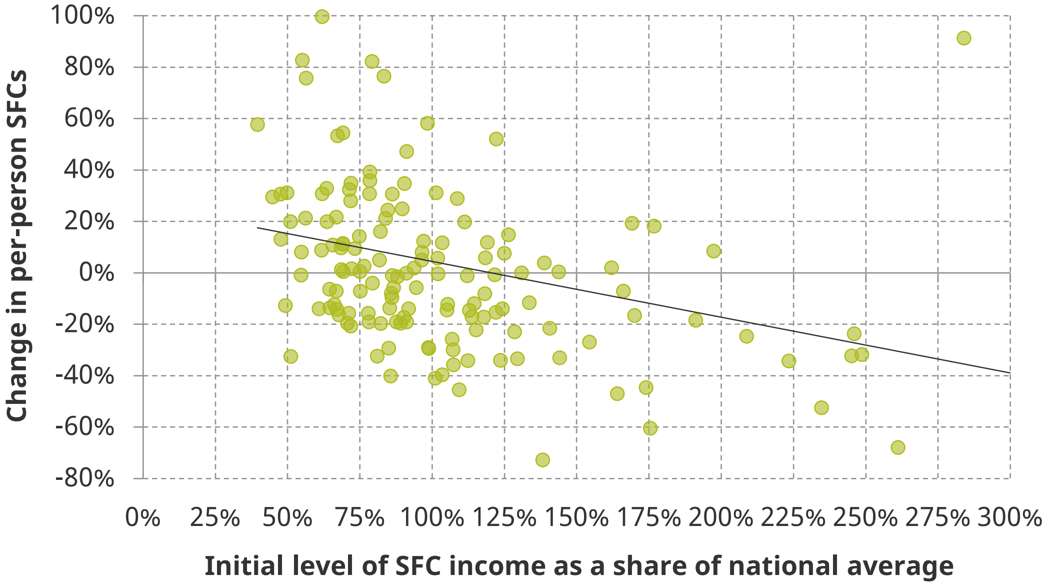


Note: As for Figure 2.5. City of London and Isles of Scilly are excluded as outliers. Reading and Bradford are excluded due to missing data. Halton is included but not shown on the figure.

Source: As for Figure 2.5.

[15] This is the relationship estimated when still controlling for the (proportional) size of the revenue cut faced by councils. The relationship is slightly stronger when not controlling for the size of councils' revenue cuts.

Figure 2.18. Association between initial level of SFC income (as a share of national average) and change in income from SFCs, 2009–10 to 2018–19



Note: As for Figure 2.5. City of London and Isles of Scilly are excluded as outliers. Reading and Bradford are excluded due to missing data. Halton and Westminster are included but not shown on the figure.

Source: As for Figure 2.5.

revenues in 2009–10 have seen larger subsequent falls (or smaller subsequent increases) in SFC income than other councils.

Further analysis is required to understand what is driving these patterns. But one possibility relates to the fact that a significant portion of SFCs are raised to supplement discretionary services – such as culture and leisure services. Thus, councils with high initial SFC levels may have been councils with higher initial discretionary offerings – the very types of services that seem to have been cut back the most in the face of the cuts to funding.

2.4 How have councils coped with the cuts?

This section explores in more detail how councils have adapted to cuts in funding, drawing on information from revenue out-turns and budgets, information on their activities, and surveys of council officials and councillors.

What can we learn from changes in councils' reserves?

Councils hold financial reserves into which they place revenues for future use. The bulk of this is (at least notionally) earmarked for specific projects and future liabilities, but a proportion is general reserves.

Given the large cuts to local government, one might have expected one response to have been drawdown of these reserves – e.g. by direct withdrawals or by not replacing earmarked reserves as the projects they were put aside for are implemented. In fact, financial reserves have increased by the equivalent of 39% per person in real terms since

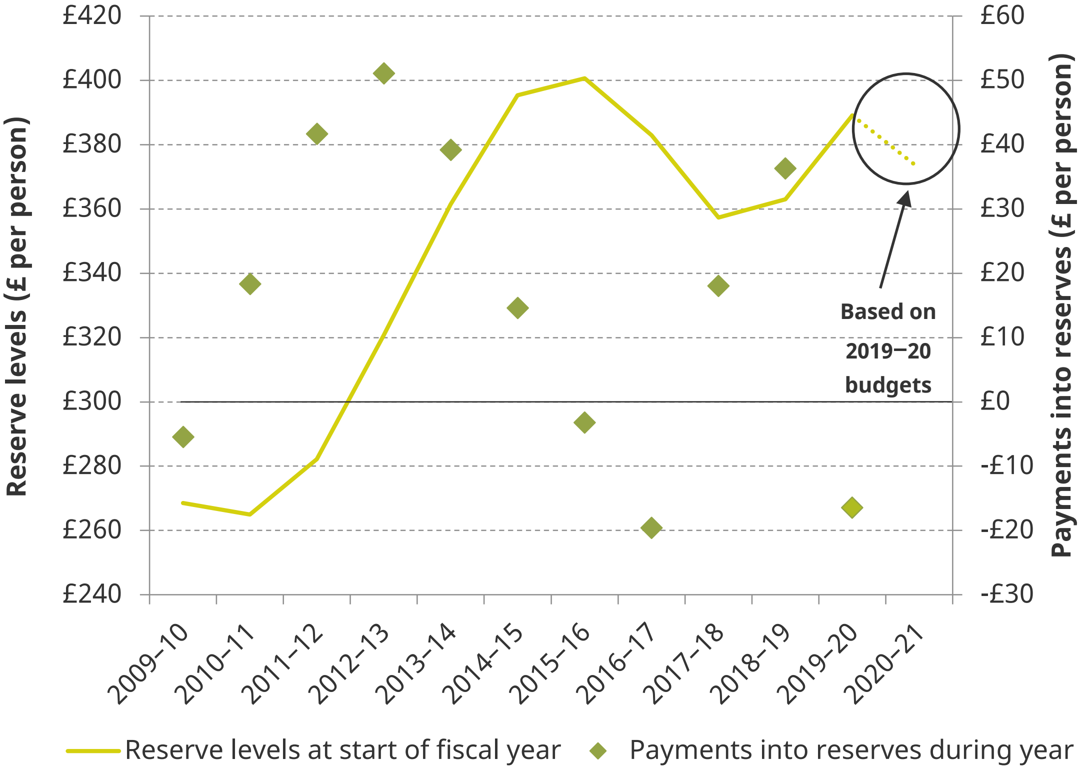
2009–10, as shown in Figure 2.19. (This figure excludes reserves specifically for schools and public health given that responsibilities of councils for these services have changed over time.)

The figure shows distinct trends over different sub-periods of the last decade:

- After drawing down reserves slightly in 2009–10, councils paid significant sums into reserves in the years 2010–11 to 2014–15. This increased reserve levels by 50% per person over the course of five years.
- Councils withdrew money from reserves in 2015–16 and especially 2016–17. As a result, reserves per person fell by 11% between April 2015 and April 2017.
- Councils again paid into reserves in 2017–18 and 2018–19, partially reversing previous cuts in reserves. But budgets for 2019–20 suggest a drawdown of around £950 million.

This pattern could reflect several factors. For instance, councils may have initially increased the size of their reserves given uncertainty about future funding – both the scale of cuts to come, and as a result of potential volatility in income from the Business Rates Retention Scheme. Later drawdowns in reserves in 2015–16 and 2016–17 may reflect

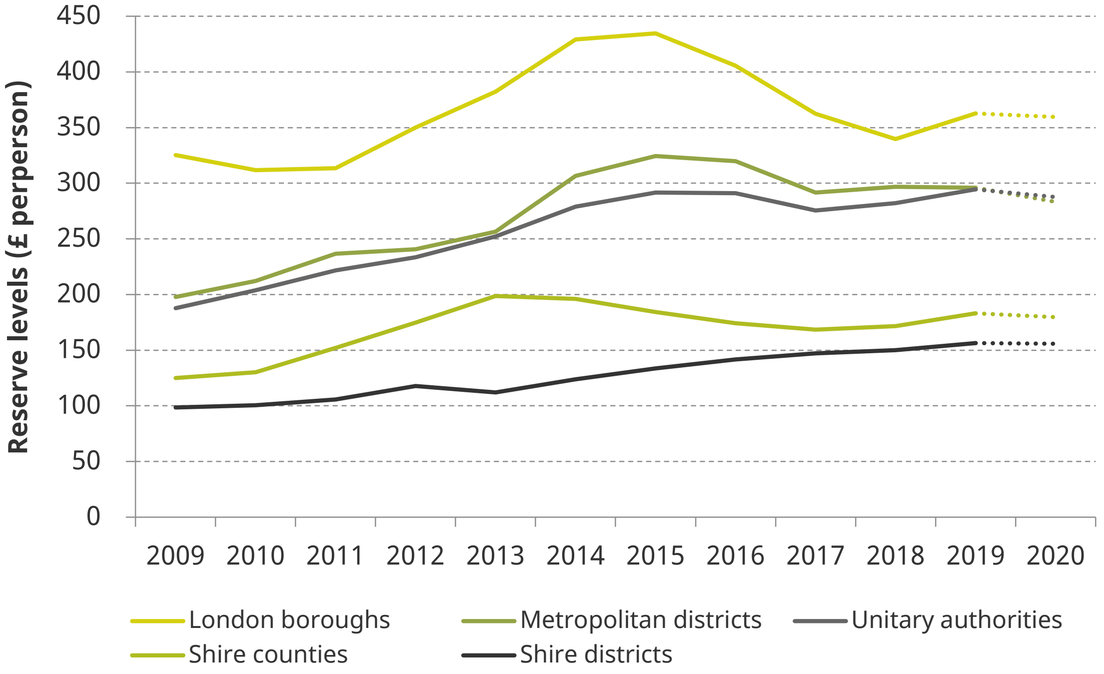
Figure 2.19. Councils' reserves per person and payments into reserves per person (2019–20 prices)



Note: Measure of reserve levels includes only 'other earmarked financial reserves' and 'unallocated financial reserves' (i.e. excludes reserves allocated for schools and public health), and reports opening balance on 1 April in each year. Figures for 2019–20 and 1 April 2020 are based on budgeted drawdown of reserves in 2019–20. City of London and Isles of Scilly are excluded.

Source: As for Figure 2.5.

Figure 2.20. Councils' reserve levels per person by council type, April 2009 to April 2020



Note: Measure of reserve levels includes only 'other earmarked financial reserves' and 'unallocated financial reserves' (i.e. excludes reserves allocated for schools and public health), and reports opening balance on 1 April in each year. Figures for 2020 are based on budgeted drawdown of reserves in 2019–20. City of London and Isles of Scilly are excluded.

Source: As for Figure 2.5.

growing pressures on councils but also the announcement of a four-year settlement for local government in Autumn 2015 which may have reduced uncertainty about the future. And payments into reserves in 2017–18 and 2018–19 seem to reflect higher-than-initially-anticipated revenues – e.g. from above-inflation business rates revenue growth (see Chapter 4).

Delving deeper, trends in reserves vary significantly across councils, as shown in Figure 2.20. It shows that reserve levels by the end of this year are forecast to increase by just 11% per person for London boroughs, compared with 53% for unitary authorities and 58% for shire districts, between April 2009 and March 2020.

Focusing on the period since April 2015 though, trends by council type are rather different from those for the period as a whole. In particular, between April 2015 and March 2020:

- reserves per person for London boroughs and metropolitan districts are forecast to fall by an average of 17% and 13%, respectively;
- reserves per person for unitary authorities and shire counties are forecast to fall by an average of 1% and 3%, respectively;
- reserves per person for shire districts are forecast to increase by an average of 16%.

Reserve levels vary significantly as a percentage of net spending on services (excluding education, public health and fire services) by council type. In April 2019, reserves were equivalent to:

- 49% of annual net service spending by London boroughs;
- 40% of annual net service spending by metropolitan districts and 39% for unitary authorities;
- 31% of annual net service spending by shire counties;
- 108% of net service spending by shire districts.

Relative levels and recent trends in reserves therefore suggest that upper-tier councils with social care responsibilities may be finding it financially more difficult to adapt to lower funding than lower-tier shire district councils. Analysis of surveys of councillors and officers by researchers at IFS, LGiU and PwC found evidence of this in 2017,[16] with:

- virtually all respondents from shire districts saying service quality had been sustained or improved in 2016–17, compared with just 75% from shire counties and 75% from unitary authorities and metropolitan districts;
- over 80% of respondents from shire districts saying cuts in 2017–18 would not be evident to the public, compared with over 70% and over 80% saying they *would* among shire counties and among unitary authorities and metropolitan districts, respectively.

This may reflect the service mix of shire districts – a high proportion of which is services with significant contribution from SFCs – and the fact that they have retained significant revenues from the BRRS and NHB (see Chapter 4).

Councils have increasingly focused on services required for them to meet their statutory duties

Perhaps the main strategy used by councils to adapt to falls in revenue has been to prioritise those services required to meet their statutory duties, with large cutbacks elsewhere, especially where there is scope to rely more on SFCs.

Section 2.2 showed this at a high level, presenting how social care services have been relatively protected over the last decade, while areas such as culture, housing, planning and transport have seen reductions in net spending of over 40%, only partly ameliorated by income from SFCs.

This pattern can also be seen when looking at sub-services *within* broad service areas – with councils having to cut back on certain sub-services, while protecting those linked to statutory duties or policy priorities.

- For example, while spending on housing fell by 52% per person between 2009–10 and 2019–20, budgeted spending on different sub-services has changed in very different ways:

[16] Amin-Smith et al., 2017.

  - Spending on regulation and regeneration of private sector housing has fallen by 70% per person, and spending on the 'Supporting People' programme (which provides advice and support to vulnerable groups) has fallen 80% per person.
  - In contrast, spending on homelessness has *increased* by 72%.
- Likewise, we see that per-person spending on environment and regulation is down by 24% since 2009–10, while spending on sub-services within this has changed in different ways:
  - Spending on regulatory services is budgeted to be down 49% per person.
  - Spending on waste disposal and collection taken together fall by just 9% per person and spending on coastal and flood protection is budgeted to have *increased* by 10% per person.
  - Councils also budget for net income of £111 from cemeteries and cremations this year, compared with net expenditure of £8 million in 2009–10.
- Within spending on culture and recreation (down 52% per person overall):
  - The amount spent on recreation and sport (including leisure centres and sports pitches) is budgeted to be 70% lower this year than in 2009–10.
  - In contrast, spending on open spaces is budgeted to be 40% lower per person, perhaps reflecting the fact that it is less easy to generate income from this sub-service area.
- Within highways and transport, which is down 42% per person overall since 2009–10:
  - Spending on routine maintenance of roads is budgeted to be down 53% per person and spending on general subsidies for public transport operators down 50% per person.
  - Net income from parking is budgeted to be *up* 47% per person (or from £490 million to £920 million in total) and net income from congestion charging up 31% per person (from £150 million to £260 million in total).
  - In contrast, budgeted spending per person on concessionary bus passes is down just 6% per person (and is up 1% in total), and has grown from 15% to a budgeted 25% of the highways and transport budget this year (and was in fact closer to 30% in 2018–19).

Taken together, this represents a substantial reshaping of councils' budgets.

This has still meant tough choices for social care services – especially given increases in demand

It is also clear that despite relatively protecting social care services spending, rising demands mean that difficult decisions have had to be made, and led to mounting pressures on first adult social care services and latterly children's social care services.

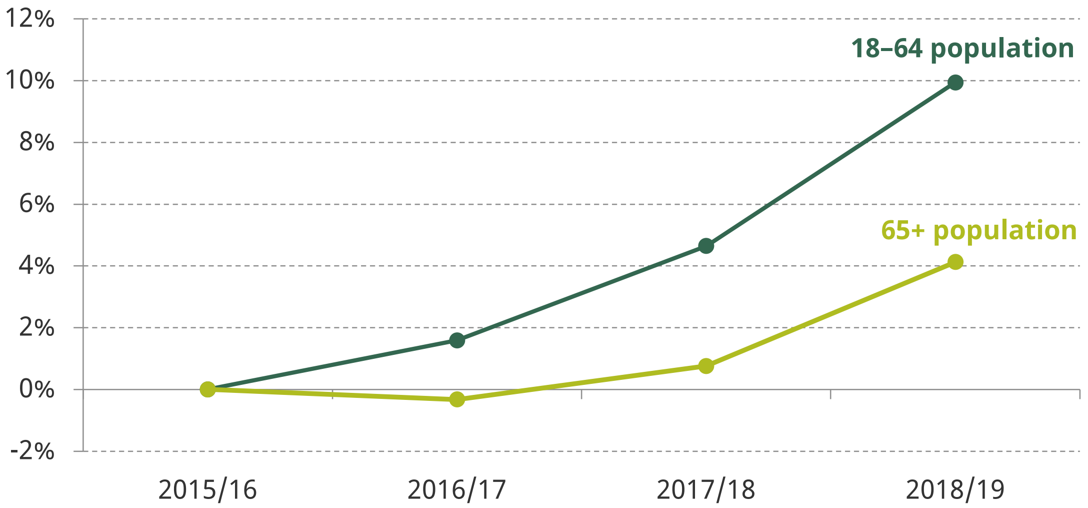
Adult social care services

Looking first at adult social care services, it is notable that the number of requests for support on behalf of young adults has grown more quickly than older adults over the last four years, despite an ageing population. Figure 2.21 shows that requests on behalf of the over-65s increased by 4% between 2015–16 and 2018–19, compared with 10% for requests on behalf of 18- to 64-year-olds.[17] This is important, as providing care for younger adults is more expensive: in 2018–19, a weekly residential care placement for a younger adult cost more than twice what one did for an older adult, on average: £1,320 versus £636.[18]

The numbers receiving care have been broadly flat in recent years though. And they fell by 27% between 2009–10 and 2013–14,[19] driven by a 32% fall in the numbers receiving community-based services in their own home or day-care centres. In particular, the numbers receiving support from a care manager, social worker or other professional staff (such as an occupational therapist) fell by 53% for those aged 18–64 and 69% for those aged 65+ over those four years. It is therefore clear that councils scaled back the additional support given to clients with less severe needs in order to limit cutbacks in support to those with the most severe care needs.

Changes in how social care spending is broken down mean we cannot say precisely how spending on different client groups (such as those aged 18–64 and 65+) has changed since 2009–10. However, we can provide a rough estimate by assuming that spending not assigned to different groups (such as spending on information, commissioning and general social work) is spent on these groups in proportion to identifiable spending on these groups. On this basis:

Figure 2.21. Increases in requests for support from new clients since 2015–16



Source: Institute for Government (2019), based on NHS Digital (2019) and earlier waves of the equivalent data.

[17] The information underlying this figure and Figure 2.22 was compiled by the Institute for Government (2019). Readers wanting further information on national-level indicators of demand, activity, quality and productivity for adults' and children's social care services and seven other service areas should read that (excellent) report for further detail.

[18] Table T50 of NHS Digital (2019).

[19] NHS Digital, 2014.

- net spending on adults aged 18–64 increased by 15% between 2009–10 and 2019–20;
- net spending on adults aged 65+ fell by 18% over the same period, despite growth in this population group of over 20% since 2009–10.

Looking ahead, the projections of adult social care demand and costs discussed in the next chapter show costs increasing by almost as much for those aged 18–64 as for those aged 65+, despite much more rapid growth in the latter population, driven by increased life expectancy for those with disabilities.[20]

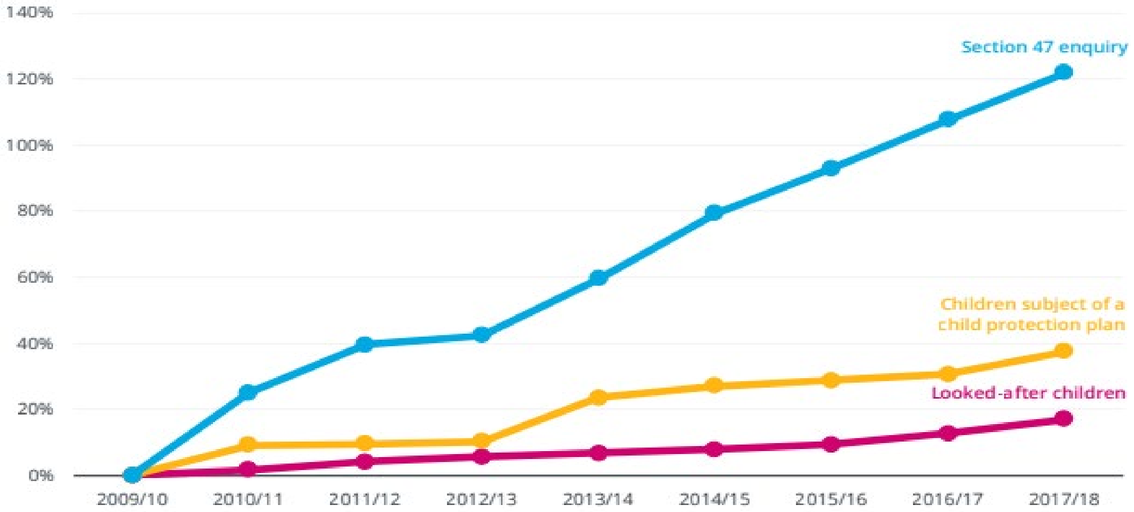
Children's social care services

The increases in spending on acute children's social care services highlighted in Section 2.2 also need to be put in the context of rising demands and pressures. Indeed, spending on children's social care services has been listed as the most immediate pressure for the past two years, with 72% of respondents to a recent survey from upper-tier councils doing so this year.[21]

This reflects increasing demand for safeguarding activities, as shown in Figure 2.22. Between 2009–10 and 2017–18, the number of so-called Section 47 enquiries (an enquiry into whether a child is suffering or likely to suffer significant harm) increased by 120%, the number of children on a protection plan increased by almost 40%, and the number of children looked after in foster homes or other settings increased by 17%.

To address this demand, while the number of social care workers has increased, the caseload of each social care worker has also increased, and the wages of these workers have been held down as part of more general pay restraint by local and national

Figure 2.22. Changes in the number of child protection enquiries, children subject of a child protection plan and looked-after children since 2009–10



Source: Institute for Government (2019), based on table A1 of Department for Education, 'Children in Need Survey' and table H1 of Department for Education, 'Children looked after in England including adoption'.

[20] See, for example, Wittenberg, Hu and Hancock (2018).

[21] Local Government Information Unit and Municipal Journal, 2019.

government.[22] This has been associated with increasing problems of recruitment and retention though.[23]

There is also some evidence of reductions in service quality. For example, the proportion of children starting child protection plans that were on them for the second or subsequent time increased from 13% to 20% between 2009–10 and 2017–18. And the proportion of protection plan reviews being carried out on time has declined from 97% to 91% over the same period.[24]

Budget overspends

Comparisons of the initial budgets councils submit to the MHCLG with what they actually spend also confirm the pressure children's social care services are under – and show rising pressure in housing services and an inability to deliver planned savings to planning and development services in full. Table 2.6 shows:

- Spending on children's social care has exceeded budgets by an average of 8% a year over the four years 2015–16 to 2018–19.
- Spending on planning services has exceeded budgets by an average of 9% a year over the same period, although it is unclear whether this relates to discrepancies in gross expenditure or income from SFCs.
- Spending on housing services has progressively moved from undershooting budgets to overshooting by 5% in 2018–19. This coincides with additional statutory duties related to

Table 2.6. Average percentage deviation of spending out-turn (RO) from budget (RA) by service area

Service	2015–16	2016–17	2017–18	2018–19
ASC	+2%	+4%	−2%	−1%
CSC	+8%	+8%	+10%	+8%
Env. & reg.	−1%	−2%	−3%	−2%
Transport	−12%	−9%	−6%	−10%
Central and other	−7%	0%	−1%	−1%
Culture	0%	0%	+2%	+1%
Housing	−8%	−6%	0%	+5%
Planning	+6%	+11%	+10%	+9%

Note: As for Table 2.1. 'ASC' refers to adults' social care services; 'CSC' refers to children's social care services; and 'Env. & reg' refers to environmental and regulatory services.

Source: As for Table 2.1.

[22] Institute for Government, 2019.

[23] Institute for Government, 2019.

[24] Institute for Government, 2019.

homelessness, and housing becoming the second most cited 'immediate pressure' facing councils.[25]

2.5 Summary

This chapter has examined how local government revenues and spending have changed over the last decade. Three big trends which have significantly reshaped local government revenues and spending, with potentially major implications for the future, stand out.

First is that larger cuts to overall funding for more deprived councils in the first half of the 2010s mean that the local government funding system is less redistributive that it was in 2009–10, although funding and spending are still higher in more deprived areas than less deprived areas. One cannot say whether the old or new relative levels of funding for councils in more deprived and more affluent parts of the country are more appropriate though, without both a robust assessment of spending needs and judgement on how far one is willing to redistribute revenues to ensure funding is in line with those assessments.

The MHCLG is tackling both questions as part of its Fair Funding Review, but the pattern of spending cuts seen since 2009–10 makes its job more difficult. In effect, inferring spending needs from post-cuts spending patterns, as the current government proposes to do for a range of non-social care services, will bake past cuts into future needs assessments. But inferring spending needs from pre-cuts spending patterns would mean implicitly assuming relative funding levels used to be fairer prior to the cuts. The next government must be upfront that completing the Fair Funding Review requires at least as much subjective judgement as objective analysis.

Second, councils are increasingly reliant on local revenue sources, with council tax accounting for around half and retained business rates around 30% of revenues – up from just over a third and nothing in 2009–10. As we discuss in the next chapter, this matters because revenues from local taxes are unlikely to keep pace with the rising demands for and costs of key services such as adult social care. But it also matters because different councils can raise very different amounts from council tax because of differences in the sizes of their tax bases. For example, Section 2.1 showed that in the most deprived tenth of council areas, council tax revenues in 2019–20 amount to £336 per person, compared with £599 per person in the least deprived tenth of council areas.

Looking ahead, councils with small council tax bases could find themselves losing out on funding if increases in council tax are supposed to provide a significant share of the overall funding councils will need to meet rising demands and costs. While the government proposes to periodically redistribute funding, in between these resets it proposes to ignore the variation in the amount different councils can raise in council tax (it also discusses resets being only partial as well).[26] Alternatively, it could account for how much each council would raise if it increased council tax by an assumed rate – as is done in Wales. This would prevent councils with smaller tax bases falling behind, but the choice of assumed increase in tax rate could prove controversial.

[25] Local Government Information Unit and Municipal Journal, 2019.

[26] Ministry of Housing, Communities and Local Government, 2018b.

Third, councils' budgets have become increasingly focused on social care and services required to meet statutory duties. Not only does social care make up a larger part of overall budgets, but homelessness services make up a much larger share of housing budgets, and concessionary fares a much larger share of transport budgets. Yet strains are still evident for the services offered such relative protection – most notably, children's social care services.

This may have several implications for the future. If further cuts are required, councils may struggle to offer the same relative protection to social care and other services required for statutory duties given just how far other services have been cut back already. Section 2.3 showed that it has already been the case that councils having to make bigger cuts overall did that to a large extent by making bigger cuts to social care services. Another issue is that an increasing fraction of spending goes on services that directly benefit only a minority of local residents – namely, recipients of social care services, discretionary bus passes and homelessness support. It is natural to wonder whether local taxpayers – residents and businesses – will be willing to increase taxes to pay largely for services that they do not benefit directly from.

Finally, the differences in choices made by different councils over the extent to which different services should be relatively protected or cut back in the face of funding cuts pose interesting questions for future research. What drives these choices – local pressures or preferences – and what impacts have they had on the quality and coverage of services in different areas? That is an issue we will investigate in more detail in the run-up to our next annual report.

3. The outlook for councils' funding: is austerity over?

The previous chapter showed that the last decade has been one of austerity for local government, with revenues and spending per person down by almost a quarter between 2009–10 and 2019–20. It also showed that the bulk of the cuts – although not necessarily the bulk of the pain associated with them – occurred in the first half of that decade. Indeed, budgets for 2019–20 imply a modest increase in spending relative to 2018–19, reflecting increasing council tax revenues and bills.

But will these increases continue in the years ahead, ending austerity for local government? Or will councils again face tough choices over which services to prioritise and which to cut back? That is the question we explore in this chapter. In particular, Section 3.1 looks at recently announced plans for the next financial year, 2020–21. Section 3.2 then looks further ahead, discussing the outlook out to the mid 2020s and beyond.

3.1 The government's plans for 2020–21

In his 2019 Spending Round, Chancellor Sajid Javid announced additional funding for local government as part of wider increases in government spending. In particular, he announced:

- An increase in funding via the general-purpose Revenue Support Grant and redistributed business rates ('baseline funding levels') in line with inflation. In cash terms, this amounts to around £0.3 billion, and it is the first time that this general-purpose funding has increased in a decade. This year, for instance, it fell £0.9 billion in cash terms.

- An increase in grant funding for adults' and children's social care of £1 billion. This continues a trend of increases in grant funding targeted at social care services – with other significant increases announced in Autumn 2015, Spring 2017 and Autumn 2018. One notable difference from past announcements though is that this funding is labelled for social care services but not actually ring-fenced: it can therefore be spent as councils see fit. The grant funding that is currently ring-fenced for adult social care (the Improved Better Care Fund and Winter Pressures Grant) will remain ring-fenced but be frozen in cash terms.[27]

- Keeping funding for the NHB and the Rural Services Delivery Grant fixed in cash terms.[28]

- And, subject to consultation, allowing councils to increase their council tax by up to 2% for general expenditure and up to an additional 2% for adult social care (the ring-fenced 'social care precept'), without requiring a referendum. The former would raise around £0.6 billion if taken up in full and is lower than the 3% increases allowed for general expenditure this year. The latter would raise around £0.5 billion if taken up in full and

[27] At £1.8 billion and £240 million, respectively.

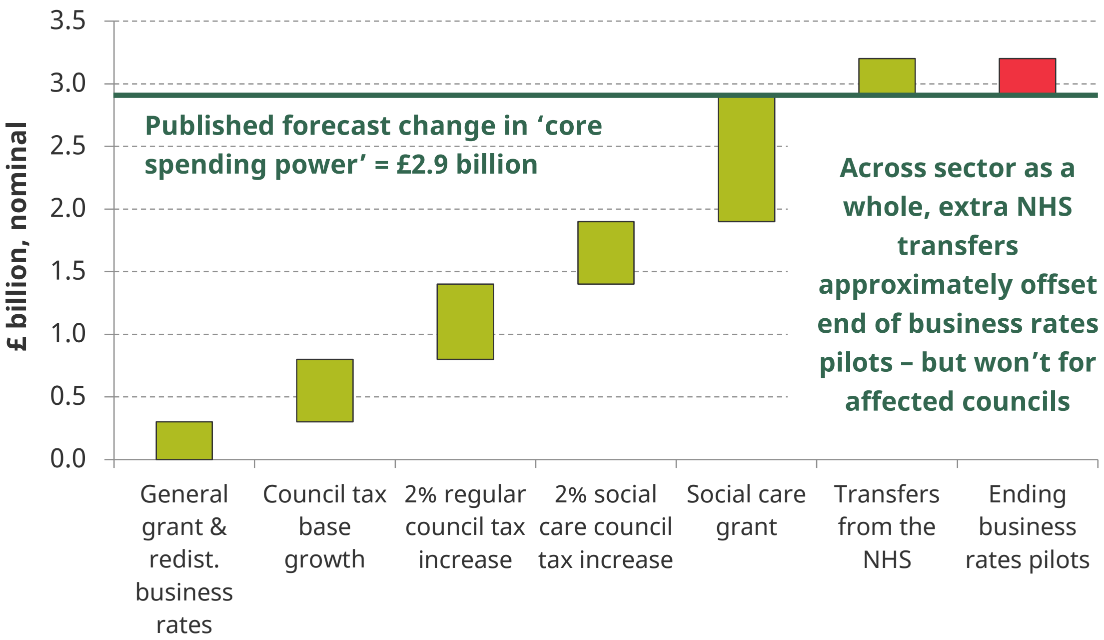
[28] At £0.9 billion and £81 million, respectively.

means powers to levy additional increases specifically for social care will not now end in 2019–20 as initially planned.

Furthermore, the chancellor assumed that growth in the council tax base (i.e. the amount that would be raised even if there were no increases in tax rates) will generate approximately £0.5 billion. This is significantly higher than would be generated from expected house-building alone and reflects the fact that in its projections, the government is effectively relying on councils continuing to cut back the generosity of their council tax support schemes for low-income households,[29] or cut (increase) other discretionary discounts (premiums). If this were not the case, increases in the council tax base would be expected to raise slightly more than half the £0.5 billion implied by the chancellor's figures.

All told, this amounts to a £2.9 billion increase in what government terms 'core spending power' – a cash-terms increase of around 6.3% and a real-terms increase of 4.3% – if councils increase their council tax by the full amount allowed and continue cutting back the generosity of their council tax support schemes. He also announced two other increases in council funding outside the core local government settlement: an increase in the Public Health Grant and of transfers from the NHS to help pay for social care of 3.4% above inflation, in line with the average annual increase agreed for the NHS as part of its

Figure 3.1. Contributions to forecast changes in councils' funding in 2020–21 if underlying business rates remain unchanged in real terms



Note: Figure for ending business rates pilots is based on the estimated gain from pilots in 2019–20 and could be higher or lower than this depending on whether underlying business rates revenue grows or shrinks in real terms in 2020–21.

Source: Authors' calculations using HM Treasury (2019) and IFS's local government finance model.

[29] Adam, Joyce and Pope (2019) highlight how councils have cut back levels of support by, among other things, increasing minimum payments, capping support amounts for those in high-band properties, and cutting capital limits.

long-term funding deal (and, indeed, slightly higher than the 3.1% increase the NHS will receive in 2020–21). These will provide an additional £170 million and around £100 million ring-fenced for public health and adult social care spending, respectively. For public health this represents the first increase since 2015–16 (this year it was cut by £85 million, for example).

A quiet cut to retained business rates revenues?

However, in its consultation on its detailed plans, the government has also confirmed a funding *cut* that will affect a significant number of councils: the end of business rates retention pilots outside of Bristol, Cornwall, Greater London, Greater Manchester, Merseyside and the West Midlands.[30] This means the 117 councils that are currently pilots as part of 15 pools will move from retaining 75% of the growth in business rates to 50%,[31] as well as having that growth subject to the levies that operate in the standard version of the BRRS. Greater London will also see its retention rate switch from 75% to 67%, reducing retention rates for 32 London boroughs back down to 30% (with the Greater London Authority receiving the other 37%).

The size of this cut will depend on the real-terms growth in business rates revenues in 2020–21 relative to 2013, when the BRRS was first introduced and from which growth is measured from. We do not yet know this of course. But in the next chapter, we estimate how much pilots are gaining as a result of the pilots in the current financial year, 2019–20, based on published forecasts for business rates revenues. This suggests the 15 pools that will move back to 50% retention are gaining £193 million as a result of their pilot status, and London councils are gaining £65 million as a result of having 75% as opposed to 67% retention. Thus even if there is no real-terms growth in underlying business rates revenues in 2020–21, changes to business rates pilots will reduce funding for local government by around £258 million.

If there is real-terms growth in underlying business rates revenues in 2020–21, overall funding for local government will, of course, be higher than if there is no growth (even 50% of the growth is better than nothing!). However, to offset the abolition of the pilots, we estimate that, on average, those councils moving back to 50% retention will need business rates revenues to have grown around 1.33 times more over 2013 levels than they had grown by 2019–20, requiring growth of around 3.1% above inflation in just one year. Across England as a whole, we estimate that underlying business rates revenue growth of around 2.2% above inflation would be needed to offset the effect of ending the pilots on overall funding for local government.

Changes to a wider measure of local government funding

Taking into account these additional funding increases and cuts suggests a broader measure of council funding (the government's 'core spending power' plus funding from the NHS for public health and social care plus retained business rates growth) will increase by around £2.9 billion or around 3.5% in real terms if there were no above-inflation growth in underlying business rates revenues. Each additional 1 percentage point by which underlying business rates revenues grow would generate around £119 million

[30] Ministry of Housing, Communities and Local Government, 2019a.

[31] The pools are Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicester and Leicestershire, Norfolk, Northamptonshire, North and West Yorkshire, North of Tyne, Solent, Somerset, Staffordshire and Stoke-on-Trent, West Sussex and Worcestershire.

for local government, equivalent to an additional 0.25 percentage point increase in real-terms funding.

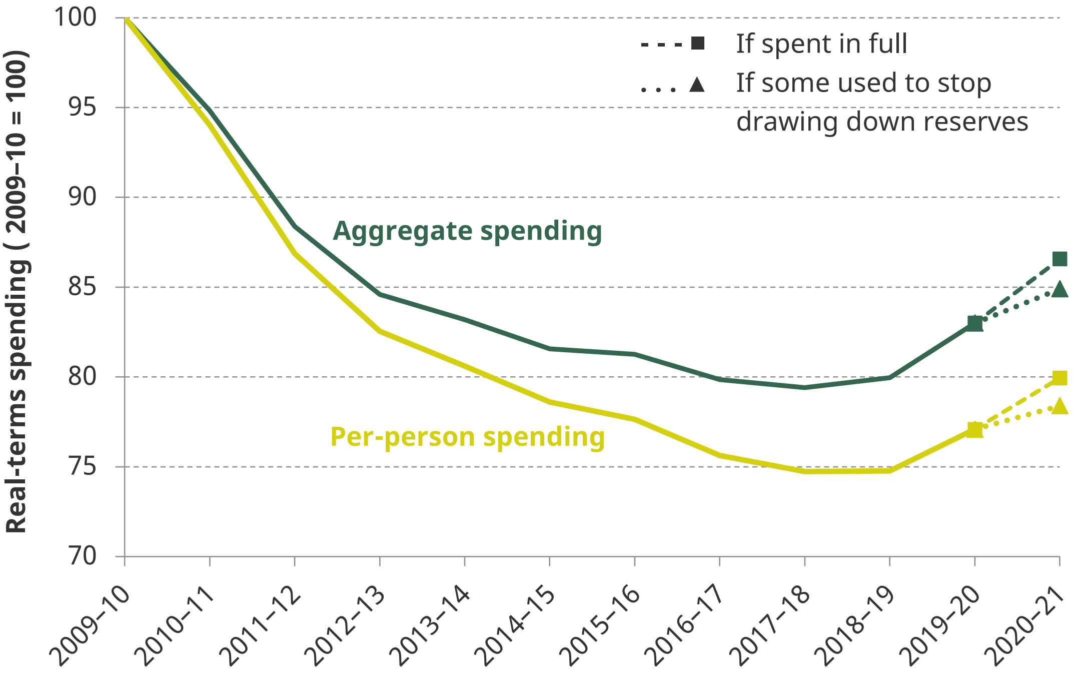
To what extent do these funding increases offset previous cuts?

As covered in depth in Chapter 2, these planned funding increases follow a decade, the first eight years of which (to 2017–18) saw local government spending on services fall by 21% and spending per person fall by closer to 25%, driven by falls in funding from central government. Even taken alongside the modest spending increases planned for the current year, the additional funding increases planned next year, if spent in full, would mean only a small part of the earlier real-terms cuts to council spending across England as a whole would be reversed:

- around a third of the cut to overall service spending;
- around a fifth of the cut to spending per person.

However, as discussed in Chapter 2, councils' budgets imply a drawdown of reserves of approximately £0.95 billion in 2019–20.[32] If councils decide to use part of the funding

Figure 3.2. Increase in funding planned for 2020–21 in the context of the cuts to council spending in the 2010s



Note: The dashed lines with squares show the potential path for spending and per-person spending if the additional funding for 2020–21 is spent in full. The dashed lines with triangles show the potential path if councils use part of the additional funding to stop drawing down reserves in 2020–21.

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2019a) and Ministry of Housing, Communities and Local Government (2019b and previous years' data).

[32] Ministry of Housing, Communities and Local Government, 2019b. Almost 60% of this relates to planned use of reserves by the Greater London Authority in large part to fund an increase in spending by Transport for London.

announced for next year to stop drawing down reserves, then the amount available for spending on services may increase by more like 2.3% in real terms (not 4.3%) next year. In this case, an even smaller share of earlier real-terms cuts to spending would be reversed on average by next year:

- just over a quarter of the cut to overall service spending;
- around a seventh of the cut to spending per person.

Moreover, the funding boost (and the previous cuts) takes place in the context of rising costs and demands for certain key services such as social care services, so at least part of the increases will be absorbed by these pressures. For example, Local Government Association (2018) and PwC (2019) estimate that the spending needs of councils are growing by around 1.5% in real terms a year, driven by rising demands and costs for both adults' and children's social care services – and, as discussed in the next section, these forecasts seem somewhat conservative.

However, even so, a real-terms increase in spending of around 4.3% would almost certainly exceed the in-year spending pressures facing councils. This would enable councils to make some inroads into any backlogs of maintenance that may have built up, and/or make some modest increases in the range and quality of services provided, if they choose to spend the additional funding for next year in full. There will be less scope for such action if a significant part of the additional funding is used to bolster reserves positions.

It is also worth noting that the proportion of past spending cuts that could be offset by the extra funding this year and next differs significantly across the country, reflecting differences in the scale of those past cuts. In particular, less of the past cuts will be offset in more deprived parts of the country where cuts have been larger (e.g. averaging 31% for those councils with the highest levels of deprivation, as shown in Figure 2.9) than in less deprived parts where cuts have been smaller (e.g. averaging 16% in the least deprived council areas).

Will all councils see funding increase to the same extent?

In addition, councils will not all see their funding increase next year in line with the national average.

In part, this will reflect the fact that some may choose to increase their council tax by less than the full extent allowed (and assumed by the government in its figures). For example, in 2019–20, a number of councils froze or even cut their council tax, despite all being able to increase their council tax by at least 3%. Some will reflect differences in underlying council tax and business rates tax base growth across the country. But differences will also reflect decisions by central government on how to allocate funding:

- First, and most obviously, shire district councils will see a smaller increase in funding than councils with social care responsibilities. This reflects the facts that, subject to consultation, increases in council tax will be capped at 2% (rather than the 4% allowed for those with social care responsibilities) and that unsurprisingly they will not receive any of the additional grant funding for social care services. With general grant funding and funding from redistributed business rates frozen in real terms, this means shire districts will rely on growth in their council tax bases (whether as a result of house-building or changes to the cost of exemptions, discounts, premiums or council tax support schemes) and retained business rates revenues for any real-terms increase in funding. Nevertheless, this is a marked improvement on the past decade when shire districts have seen real-terms cuts in general grant and hence overall funding. And as discussed in Chapter 2, lower-tier district councils appear to be coping better financially despite facing significantly larger cuts, on average, than councils with social care responsibilities.

- Second, the amount of funding for social care different councils with social care responsibilities will receive will differ. In its consultation on detailed plans for next year's funding allocations,[33] the government proposes to allocate the additional grant funding for social care services so that overall increases in funding for social care (including the ring-fenced 2% council tax social care precept) are broadly in line with historical assessments of adult social care spending needs.[34] In cash terms, this means much more funding for some councils than others: assessed spending needs per person under the current formula are more than twice as high in places such as Knowsley and Blackpool as they are in places such as Wokingham and Bracknell Forest.

  Of course, allocation on the basis of needs is a perfectly sensible way to allocate spending. However, given that the grant is notionally for adults' *and* children's social care services, it is unclear why it is assessed need for the former only that is being used to allocate funding, especially given recent focus on children's social care as the most pressing financial pressure. Allocating funding in this way will mean more goes to rural and more affluent areas where the assessed spending need for adult social care services is relatively higher than that for children's social care services, and less for urban and more deprived areas. And it is worth noting that current assessments of spending needs were last updated in 2013–14, since when the populations and socio-economic characteristics of different areas are likely to have changed, sometimes significantly. The update to spending needs assessments being undertaken by the government in its Fair Funding Review is clearly sensible – albeit too late to be used for next year's allocations.[35]

- Third, those councils that are currently piloting 75% retention of business rates growth but that will move back to 50% retention next year will very likely see smaller increases in funding, and in some cases potentially even reductions in funding. For example, we estimate that councils in the Berkshire and Northamptonshire pilot pools are gaining, on average, an amount equivalent to 5.8% and 4.8% of their core spending power in 2019–20, which they will lose when pilots end.

  However, while the loss of these additional retained business rates revenues will clearly be unwelcome to these councils, it is worth noting that abolition of their pilots does return them to the standard BRRS scheme that non-pilot councils are subject to. Indeed, it is unclear what the justification is for allowing remaining pilots to enjoy more of the growth in business rates revenues since 2013 than other councils, other than the fact

[33] Ministry of Housing, Communities and Local Government, 2019a.

[34] £150 million of the grant allocation will be given to those councils that can raise less via the council tax social care precept.

[35] See Amin-Smith and Phillips (2019b) and Amin-Smith, Harris and Phillips (2019a) for further discussion of the Fair Funding Review.

that 100% retention (or 67% retention in the case of London) was agreed as part of broader 'devolution deals' with councils in these regions.

- Fourth, the government proposes to increase the funding every council gets from general grant funding and redistributed business rates in line with inflation, i.e. freezing them in real terms. This may sound like it treats all councils equally, but it does not account for the fact that different councils rely on these revenues to very differing extents to bolster the revenues they receive from council tax and retained business rates revenue growth.

  If grant and redistributed business rates revenues were changing very differently from council tax revenues, this could lead to very different spending cuts across councils. Indeed, this is exactly what happened in 2014–15 and 2015–16, when grant allocation decisions last took no account of the degree to which councils rely on grants. In the coming year, though, increases in council tax bills (other than for adult social care via the social care precept) are likely to be fairly close to inflation given the 2% cap, just like the change in grant and retained business rate revenues allocations. Therefore the government's proposals should not lead to very large differences in funding changes between councils this time round. However, the fact that it could shows the need to put in place a proper system for determining redistributive grants and transfers – which, as with updated spending needs assessments, is something the government plans to do in the year after next, 2021–22.[36]

3.2 The longer-term outlook

Detailed plans for 2021–22 have not yet been published. But, as already mentioned, we do know the broad detail of a number of reforms planned by the government and have a number of projections for demand and cost pressures for key service areas. Analysis of these plans and projections highlights that there is a strong likelihood that the government will need to continue with increasing grant funding or devolve additional revenue streams if we wish to avoid a return to austerity for local government. This could prove difficult if the economy takes another downturn and another round of fiscal tightening (i.e. tax rises and/or spending cuts) is required.

Potential future cost and demand pressures

Projecting the future spending needs of councils is difficult and subject to significant uncertainties – including changes in underlying demand-drivers (such as the number of old and sick people requiring social care, and the number of children in need). However, based on assumptions about how these factors will evolve over time, a number of studies examine the future spending needs of councils, focusing in particular on adult social care services. Table 3.1 summarises their projections for the annual above-inflation increases in spending required for different service areas over the first half of the 2020s. Differences between the studies are driven by differences in the factors taken into account and the assumptions made about them.

[36] Again, see Amin-Smith and Phillips (2019b) and Amin-Smith, Harris and Phillips (2019a) for further discussion.

Table 3.1. Summary of projections of above-inflation increases in spending needs during the early 2020s

Study	Adults' social care	Children's services	Other services	Overall
Johnson et al. (2018)	3.7%	N/A	N/A	N/A
Wittenberg et al. (2018)	3.4%	N/A	N/A	N/A
OBR (2018) – central	3.4%	N/A	N/A	N/A
OBR (2018) – lower productivity scenario	3.9%	N/A	N/A	N/A
OBR (2018) – higher productivity scenario	2.9%	N/A	N/A	N/A
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

Note: Johnson et al. (2018), Wittenberg et al. (2018), OBR (2018) and IfG (2019) are all based on a model by PSSRU at the London School of Economics. Differences between them relate to different assumptions about changes in unit costs (i.e. the real-terms cost of inputs to produce a unit of output), which ultimately reflect different assumptions about productivity growth in the wider economy.

* This includes core children's social care services only, unlike for LGA and PwC which include expenditure on Sure Start, services for young people, and education services funded by councils' general revenues (as opposed to ring-fenced education grants).

** This includes a subset of other services only: waste collection, road maintenance, libraries, trading standards, food safety, health and safety, and planning. It excludes other areas of environmental and regulatory services (such as waste disposal and flood and coastal protection), other areas of culture and leisure services (such as parks, leisure centres and visitor services), public transport, housing and central administrative services.

Source: Authors' calculations using information in studies cited.

Adult social care services

The resulting differences in spending needs projections can be significant. For example, based on a model developed by the Personal Social Services Research Unit (PSSRU) at the London School of Economics, Johnson et al. (2018), Wittenberg, Hu and Hancock (2018) and the Office for Budget Responsibility (2018) project that the cost of adult social care services will rise by around 3.5% a year above inflation during the first half of the 2020s. In contrast, projections by the Local Government Association (2018), PwC (2019) and the Institute for Government (2019) are for costs to rise by closer to 2% a year.

A number of factors underlie these differences. For example, the PSSRU's model incorporates assumptions that the proportion of the population with learning disabilities that necessitate care will grow over time, whereas the LGA's and PwC's are based on existing prevalence. Second, the PSSRU's model incorporates more disaggregated population projections (by five-year age band), which allows it to take account of the fact that among the over-65s, for instance, it is the population aged over 80 (who are most likely to require care) that is growing fastest.

Third and most important are differences in assumptions about what will happen to the cost of providing care of a given type to a given person – so-called 'unit costs' – which ultimately depends on what happens to productivity. Johnson et al., Wittenberg et al. and the Office for Budget Responsibility (OBR) in effect assume no productivity growth in the social care sector, justified on the grounds that between 1997 and 2016, the Office for National Statistics estimates that productivity in the adult social care sector actually fell by 0.7% a year. This means that increasing pay for social care workers in line with wages in the broader economy translates into above-inflation increases in unit costs (because the wage increases are not offset by rising productivity).

In contrast, the projections made by the Local Government Association (LGA), the Institute for Government (IfG) and, as far as we can tell, PwC assume either that productivity in the adult social care sector will grow at least somewhat, or that real wages in that sector will decline relative to those in the wider economy. For instance, the IfG assumes that unit costs rise in line with inflation, and the LGA assumes this for the majority of adult social care spending.[37] If wages in the social care sector are to increase in line with the wider economy though (which would likely be needed for recruitment and retention), this would require productivity in the sector to increase in line with the wider economy too – a significant change from recent experience.

Sensitivity analysis by the OBR in which the annual change in unit costs is 0.5 percentage points higher (low productivity) or lower (high productivity) than in its central projection also illustrates the importance of assumptions about productivity to overall cost pressures.

Children's and other services

Projections for other services, including children's services, are only available in the LGA, PwC and IfG analyses.[38] All show very modest above-inflation increases in spending needs for 'other services' of around 0.5% a year. This is broadly in line with population growth, and reflects the fact that unit costs are generally assumed to rise in line with inflation. As discussed above, this requires some combination of productivity improvement and/or falls in relative wages.

Turning to children's services, it is notable that there are significant differences between the projections of the LGA (3.1% above inflation) and PwC and the IfG (1.5%). Most of this difference seems to be explained by differences in assumptions about service demand. The LGA assumes that underlying demand for spending on looked-after children and safeguarding will increase in line with trends in the number of children in foster placements or residential care and the number subject to child protection plans between 2013 and 2017, a period seeing significant growth in both. The IfG also looks at changes in the number of children in foster placements or residential care but does so over a longer period (2007 to 2017), which results in slower growth *per year*, as well as changes in the number defined as being 'in need' (which is a broader group than those on a protection plan), which has also grown less quickly. PwC, on the other hand, uses projections of the total size of the under-18 population to predict future costs.[39]

[37] The LGA does also allow part of the costs of adult social care services to increase in line with the National Living Wage – although the projections were made prior to the recent announcement of a further substantial increase in this mandated minimum during the early 2020s to 67% of median hourly pay (up from 60%).

[38] The IfG's analysis includes only a subset of children's and other services, as discussed in the note to Table 3.1.

[39] This is initially done at the council level, and then summed to the national level. Starting at the local level in this way means that if more (less) of the growth in the under-18 population takes place in areas where

Summary

Overall, while each study considered in Table 3.1 projects that councils will need above-inflation increases in funding in the five years after 2020–21, the precise projections vary significantly, driven by different assumptions about demands (especially for children's services) and productivity and unit costs (especially for adult social care services).

Will councils receive enough funding under current plans?

Whether councils will have enough funding post–2020 to maintain the quality and range of services provided will depend on what will happen to both their spending needs and their revenues. The previous discussion has already highlighted uncertainty about the former – driven by uncertainty about what will happen to the demand for and unit costs of different services. Revenues are also uncertain and will depend on what happens to local tax bases and rates, and what additional revenue streams councils are provided with.

To explore this issue, we therefore take two scenarios for both spending needs and local tax revenue, looking not just at the period up to 2024–25, but out to the mid 2030s.

For spending needs, we focus on the projected need for adult social care spending:

- In spending needs scenario 1 (S1), we assume that spending on adult social care services would have to rise by 3.4% above inflation to keep pace with demand and cost pressures, in line with the projections in Office for Budget Responsibility (2018). As already highlighted, this effectively assumes no productivity growth in the adult social care sector – which is actually a slightly better performance than over the last 20 years. But it represents our baseline scenario for cost pressures.

- In spending needs scenario 2 (S2), we assume that spending on adult social care services would have to rise by 2% above inflation to keep pace with demand and cost pressures, broadly in line with the studies by the LGA, PwC and IfG. As already highlighted, these studies effectively assume improvements in productivity in the adult social care sector – which would be a significant improvement on performance over the last 20 years – or falls in the wages of social care workers relative to other workers. This can be considered a conservative scenario for cost pressures (i.e. the expectation is that they would probably rise by more).

For revenues, we focus on the amount raised from council tax and 75% of business rates. This is because the government plans to increase the proportion of business rates retained by local government to 75% from 2021–22, and at the same time abolish the Revenue Support Grant, Public Health Grant and a number of smaller grants in order to ensure that the reform is revenue-neutral at the point of implementation.[40] This means that councils will rely on council tax and business rates for the overwhelming majority of their funding – unless plans are made to top them up.

We do not know how revenues from these taxes will evolve over time, so we look at two scenarios for council tax increases:

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demand is currently highest, overall demand across the country as a whole will grow by more (less) than the under-18 population across the country as a whole.

[40] See the next chapter and Amin-Smith and Phillips (2019a and 2019b) for further detail on these plans.

- 2% per year, which is what the government proposes as the maximum increase in council tax in 2020–21 without a referendum, excluding the extra increases allowed for adult social care services (which may not be extended indefinitely);
- 4% per year, which is what the government proposes as the maximum increase in council tax in 2020–21 without a referendum, including the extra increases allowed for adult social care services.[41]

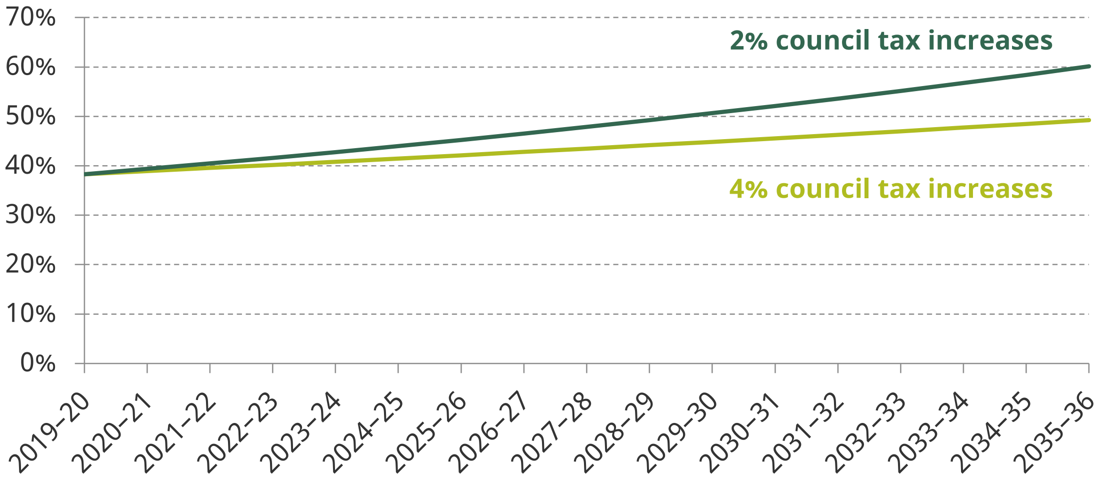
In both scenarios, the council tax base is projected to increase in line with growth in the number of households (an average of 0.66% per year), and retained business rates revenues are projected to increase by 0.3% a year above inflation, in line with medium-term forecasts by the OBR. In reality of course, there is uncertainty about growth in the tax base too, but we abstract from that here to keep our analysis tractable.

Figures 3.3 and 3.4 show the fraction of revenues from council tax and (75% of) business rates that would be needed to increase adult social care spending in line with the cost pressures under S1 (high cost pressures) and S2 (low cost pressures), respectively.

Looking first at Figure 3.3, we can see that if adult social care costs were to rise 3.4% a year above inflation, even if council tax were increased 4% a year every year, the share of local tax revenues needed for this service area would rise from 39% in 2020–21, to 41.5% by 2024–25, and to almost 50% by the mid 2030s.

Meeting the increasing cost of adult social care services in full would utilise more than three-quarters of the overall growth in local tax revenues over the period, limiting increases in the local tax revenues available for other service areas (including children's

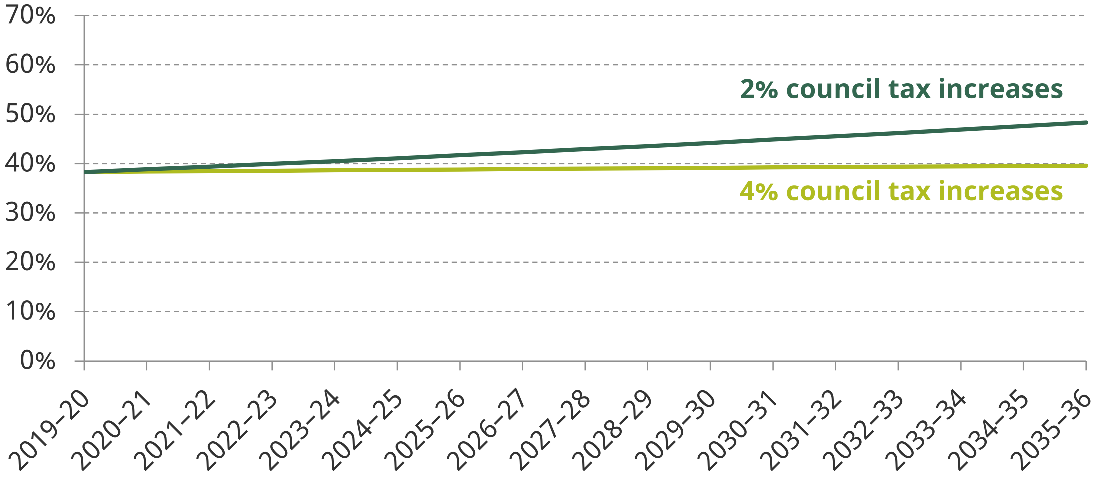
Figure 3.3. The share of council tax and retained business rates needed to meet adult social care spending pressures if costs rise 3.4% above inflation annually (S1)



Source: Authors' projections using budgeted council tax receipts from Ministry of Housing, Communities and Local Government (2019b), an estimate of how much councils would receive from 75% business rates retention in 2019–20 given forecast business rates receipts in NNDR1 forecasts for 2019–20, and projections for social care spending pressures reported in Office for Budget Responsibility (2018).

[41] Note that because only councils with social care responsibilities can increase their council tax by 4%, the average increase allowed across all councils is around 3.9%.

Figure 3.4. The share of council tax and retained business rates needed to meet adult social care spending pressures if costs rise 2% above inflation annually (S2)



Source: Authors' projections using budgeted council tax receipts from Ministry of Housing, Communities and Local Government (2019b), an estimate of how much councils would receive from 75% business rates retention in 2019–20 given forecast business rates receipts in NNDR1 forecasts for 2019–20, and the average of spending pressures for adult social care in Local Government Association (2018) and PwC (2019).

services) to an average of just 0.7% above inflation per year between 2020–21 and 2024–25, and around 0.5% a year thereafter. Without funding top-ups, this would see spending on these other services fall as a percentage of national income, and could see cuts to some services if demands and costs are rising significantly in certain areas (e.g. if the LGA's assumptions about continued increasing demand for children's social services prove correct).

If, instead, council tax were to be increased by 2% a year every year, meeting the demand for adult social care services would see the fraction of local tax revenues required increase to 44% by 2024–25 and around 60% by the mid 2030s. Meeting this would use all of the growth in local tax revenues – and more. The amount available for other services (including children's services) would *fall* by 1.4% a year in real terms between 2020–21 and 2024–25 and by 2.5% a year in real terms over the following decade. Without additional revenues, this would mean the reimposition of very significant austerity for a range of local government services on an ongoing basis.

Turning to Figure 3.4, we can see that if the cost of adult social care services were to increase more in line with estimates from the LGA and PwC – 2% per year above inflation – the picture looks rather different, at least if council tax is increased significantly.

For instance, with 4% a year increases in council tax, the share of local tax revenues accounted for by adult social care would only increase very slightly over time. The amount left over for other services would grow by 1.7% per year above inflation, almost enough to maintain spending as a percentage of national income and almost certainly enough to increase spending in real terms modestly for all service areas.

Things would still be tough with council tax increases of just 2% a year – the share of local tax revenues required for adult social care would still rise and the amount available for other services would still be falling in real terms, by around 0.4% per year during the early

Table 3.2. Additional revenue required on top of local tax revenues under different scenarios for costs and council tax increases

Adult social care costs scenario	Council tax increase	Additional revenue required so that revenues for services other than adult social care:			
		(a) keep pace with growth in national income		(b) keep pace with average of LGA's and PwC's projections of needs	
		2024–25	2034–35	2024–25	2034–35
Adult social care spending needs increase 3.4% above inflation (S1)	2%	£3.9bn	£18.0bn	£3.3bn	£13.6bn
	4%	£1.6bn	£8.7bn	£1.0bn	£4.2bn
Adult social care spending needs increase 2% above inflation (S2)	2%	£2.8bn	£13.2bn	£2.2bn	£8.8bn
	4%	£0.5bn	£3.9bn	–£0.0bn	–£0.6bn

Note: All figures in 2019–20 prices.

Source: Authors' calculations using estimated council tax and retained business rates revenues from Ministry of Housing, Communities and Local Government (2019b).

2020s and by 0.7% a year thereafter. This is clearly less drastic than if adult care costs were rising more significantly, but would still require severe cuts to certain services, on top of the cuts they faced during the 2010s.

Table 3.2 shows how much additional funding would be needed in each of the scenarios for adult social care costs and council tax increases to ensure that after 2020–21, the revenues available for other services either:

(a) grow in line with current OBR forecasts and long-term projections for growth in national income of 1.6% above inflation out to 2023–24 and 2.1% thereafter – stopping the fall in such spending as a proportion of national income that has been seen over the last decade; or

(b) grow in line with the average of the LGA's and PwC's (probably conservative) projections for spending needs for services other than adult social care, which equates to 1.2% above inflation.

In doing this, in addition to taking account of revenue from local taxes, we also take account of potential revenues from government grants for non-education spending that the government is likely to retain after the roll-out of 75% retention.[42] This allows us to

[42] This includes a number of social care grants – such as the Improved Better Care Fund, the Winter Pressures Grant and the Social Care Support Grant. The first two are assumed to be frozen in cash terms at their level in 2019–20 and 2020–21. We take account of the increase in the Social Care Support Grant in 2020–21 but assume it is frozen in cash terms thereafter. We also include the New Homes Bonus, which is assumed to be frozen in cash terms in 2020–21 and then increasing in line with tax bills thereafter (given payments depend on the

look at how much additional funding would be required *on top of* the grants councils will likely continue to receive post 2020–21.

The table shows that if council tax increases were kept to 2%, significant additional funding would be needed even if the costs of adult social care services increased at a relatively conservative 2% above inflation each year (S2): for example, £2.8 billion in today's prices by the mid 2020s and £13.2 billion in today's prices by the mid 2030s for revenues for other services to keep pace with growth in national income. If adult social care costs were to grow in line with our baseline scenario (S1), the figures would be larger still: £3.9 billion and £18.0 billion respectively. And in that case, even 4% increases in council tax would mean an additional £1.6 billion would be needed by the mid 2020s and £8.7 billion by the mid 2030s, to maintain spending on other services as a share of national income. Only in the scenario with 4% council tax increases and small increases in the cost of adult social care would little or no additional revenue need to be provided to local government to meet spending pressures.

Our scenarios therefore illustrate a key point: that in order for growth in council tax and business rates revenues to keep pace with local government's spending needs after 2020–21, we would require both relatively large rises in council tax each year, and relatively subdued cost pressures for major service areas such as adult social care services – e.g. due to improved productivity performance. Without such increases in council tax and productivity, it seems highly unlikely that revenues from council tax and business rates will keep pace with the rising demands for and costs of local government services (especially adult social care services).

Two further points are worth noting before moving on to a discussion of how any funding gap could be filled:

- First, these projections are based on current levels of spending and service provision. They do not account for any efforts to undo previous cuts, nor the cost of any increase in the range, quality or coverage of services: such policies would mean further additional funding would be required. For example, the Labour party (2019) has announced that it would roll out free personal care for the elderly (currently, such support is means-tested), which the Health Foundation and King's Fund have estimated would cost £6 billion in today's prices in 2020–21 and £8 billion in today's prices in 2030–31, even if based on current stringent assessments of who needs care.[43]

  Labour has said that these services will be funded by general taxation – although it has not defined whether that will be from national or local sources. However, even if additional funding were provided to local government at the time these reforms were introduced, unless that additional funding were increased over time, meeting the rising costs of free personal care would further squeeze the resources required for other local services.

average Band D tax rate), and the Former Independent Living Fund Recipient Grant, Flexible Homelessness Support Grant and Localised Council Tax Support Administration Subsidy Grant – each of which is assumed to be frozen in cash terms.

43 Bottery et al., 2018.

- Second, as with the outlook for the coming year, the longer-term outlook will differ across councils. This means even in the (improbable) case where funding from council tax and business rates were sufficient at a national level, it would not be in all local areas. And in the (more probable) case where funding from council tax and business rates is insufficient at a national level, the funding gaps could be significantly bigger in some areas than others.

  Perhaps most obviously, this is because spending needs are likely to grow at different rates in different areas – e.g. because the population is ageing more rapidly or is becoming relatively more deprived. Just as important, though, is that revenues are likely to grow at different rates in different areas. In part, this is because, as highlighted above, the government plans to update its assessment of how much councils need to spend in 2021–22 and redistribute revenues accordingly during the subsequent few years in its Fair Funding Review. Even after that, those areas with smaller council tax bases (i.e. with more of their households in low tax bands and/or in receipt of discounts or exemptions) will benefit relatively less from increases in council tax bills than areas with bigger council tax bases. Some areas will benefit more than others from growth in the business rates tax base – both because of differences in underlying growth rates and because of the design of the BRRS.

  As discussed in the next chapter, the current government plans to periodically redistribute revenues – at least partially – to prevent such divergences between spending needs and revenues from growing too large. But it is unclear just how frequent and how partial those resets will be. And the potential for divergence is an inherent feature of any system using revenue retention to provide financial incentives to boost tax base growth and tackle spending needs. This is an important point to bear in mind when considering the options available to the government to address the likely council funding gap.

Options for providing additional funding to councils

Broadly speaking, if councils do not have sufficient revenues to meet growing demands and costs, at least one of four things will have to happen:

1. councils will have to start cutting the range or quality of the services they provide again;

2. councils will have to be relieved of some of the services for which they are currently responsible;

3. central government grant funding for councils will have to be increased over time; or

4. councils will have to be given access to additional sources of revenue themselves, including via tax devolution.

The most appropriate option will depend on the financial circumstances central government finds itself in, and its objectives.

For example, the wider economic situation will have a bearing on the amount of money available to central government for topping up local budgets. If further austerity is required at a national level, it seems unlikely that local government could escape this.

Taking certain responsibilities off local government would seem to go against the recent trend to devolve additional areas of responsibility to local government – especially in areas with devolution deals. However, alongside its plans for free personal care for the elderly, the Labour party discussed a National Care Service to sit alongside the National Health Service, which could involve a very significant centralisation of responsibilities for adult social care. Amin-Smith, Phillips and Simpson (2018a) discussed how such an approach could address inconsistencies between social care policy – where the aim seems to be greater consistency in quality across the country – and local government finance policy – which, since 2010 at least, has placed growing emphasis on financial incentives for growth, increasing the scope for funding divergences. However, such a centralisation would involve several tricky issues, not least the need to find a mechanism to top-slice councils' local tax revenues to help pay for the newly centralised social care service.

Turning to the provision of additional funding, the choice of whether to do so via grants funded by taxes raised at a national level, or through devolution of additional revenue-raising powers to councils, depends on both principles and practical issues. Raising funding via national taxes and then allocating it via grants according to need would likely result in service provision being more comparable across councils. And it would be administratively simpler than devolving further tax revenues and powers. But raising revenues locally and letting councils bear more of the change in local revenues would allow different councils to make different decisions on tax and spending levels, and give them stronger incentives to grow local tax bases – by allowing differences in revenue performance to result in divergences in funding.

Determining which option to choose therefore means addressing whether to prioritise national consistency and solidarity, or local discretion and incentives. This is not a question with only two polar answers, and neither is the choice over whether to provide additional funding via grants funded by national taxation or via additional revenue-raising powers: some element of both could be used to supplement the revenues from council tax and the 75% BRRS.

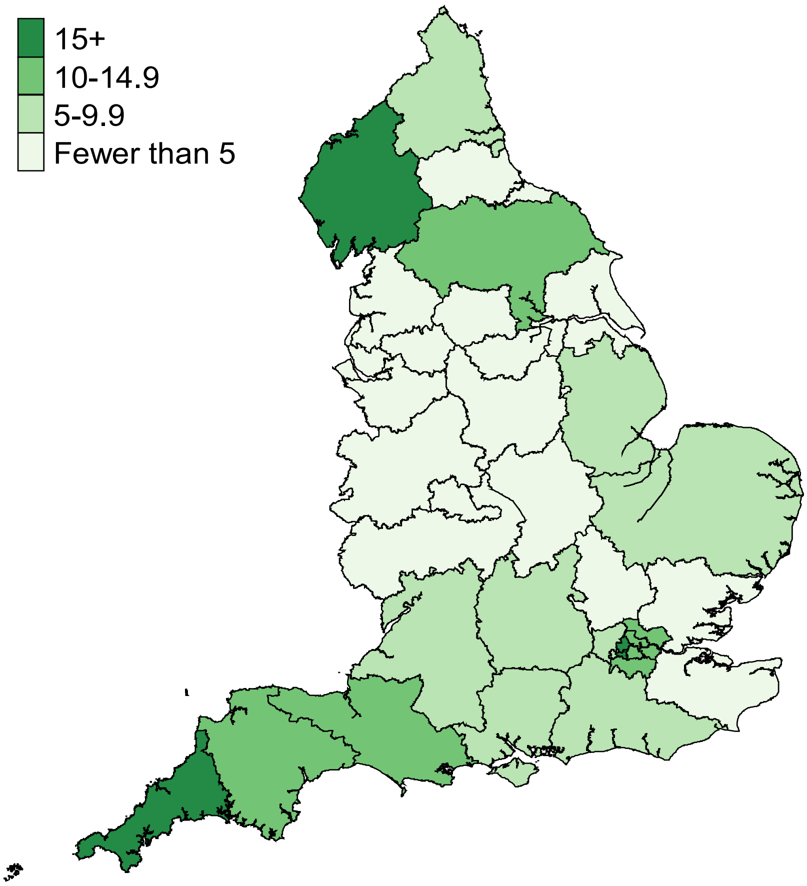
Which taxes could be devolved?

If the decision is taken to rely at least in part on the devolution of additional tax revenues, what options are there? Amin-Smith, Harris and Phillips (2019b) assessed the suitability of different taxes for full or partial devolution to local government. They concluded that:

- Devolution of the additional remaining 25% of business rates revenues, which would provide a little over £6 billion, would be administratively straightforward. However, it would leave councils with a relatively narrow and unbuoyant tax base (especially given that increases in average business rates bills are capped at inflation).

- Councils could be given more discretion over currently mandatory discounts and exemptions from council tax, and the referendum requirement for increasing council tax seems hard to justify (we do not have such a requirement for any other tax). However, giving councils more significant powers – such as the ability to revalue properties in their own areas – could pose significant problems for the redistribution of funding between councils. It would be better to revalue and reform council tax at a national level, and such action is overdue.

Figure 3.5. Overnight stays per resident in 2016, by region of England



Source: Figure A.1 of Amin-Smith, Harris and Phillips (2019b).

- While tourist accommodation taxes would be administratively feasible and would raise useful amounts in a few well-visited areas, a £1 per night charge (the level often discussed) would raise little more than £0.4 billion across England. Some areas would gain relatively little because, as illustrated in Figure 3.5, the number of overnight stays in tourist accommodation per usual resident is low for large swathes of the Midlands and North (estimates for individual local authority areas are not available, but would show even starker differences).

- Corporation tax and VAT are unlikely to be good candidates for devolution because of the complexity of apportioning corporate profits and value-added. Stamp duty land tax revenues can be apportioned between areas but are very unequal and highly volatile, and this is a particularly damaging tax which should be abolished – not entrenched via devolution.

- A local income tax would be the most sensible option for devolution of a significant new revenue stream and local tax-raising powers. Concerns about tax competition between councils, and inequality in the revenues that different councils could raise, could be mitigated by restricting powers to a flat-rate local income tax. Each 1% on all tax bands would raise around £6 billion per year across England.

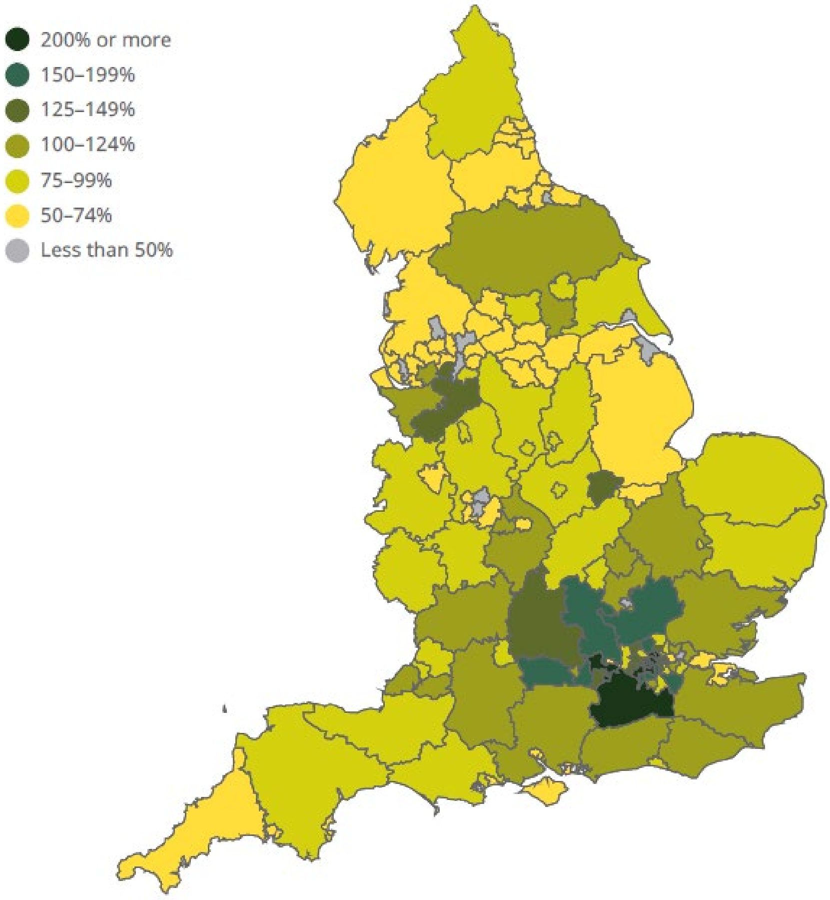
Devolving local income tax powers would not be without its challenges though. For instance, because there is currently no statutory duty for people to tell HM Revenue and

Customs (HMRC) where they live, HMRC does not have up-to-date address details for all taxpayers. This (and people with multiple homes) has caused difficulties with devolution of income tax to Scotland and Wales and may need reform if a local income tax were to be introduced in England.

It is also the case that even if powers were restricted to a flat rate, revenues would still vary quite substantially between areas, as shown in Figure 3.6. Our estimates suggest that revenues per person in richer parts of West London and Surrey, for instance, would be more than twice the national average, while in places such as Blackpool, Blackburn, Hull and Sandwell, they would likely be less than half the average.

A system to redistribute revenues between richer and poorer council areas would therefore be needed – akin to what already exists for council tax and business rates. There would be a decision about how extensive this redistribution should be, and how frequently it should be updated – questions that the government is currently grappling with for council tax and business rates as well.

Figure 3.6. Revenues per person from a flat-rate local income tax, by upper-tier council area: share of national average



Source: Based on figure 8.4 of Amin-Smith, Harris and Phillips (2019b).

3.3 Summary

This chapter has considered the outlook for local government funding, asking 'Is austerity over for councils?'.

In the coming year, the answer looks to be 'yes'. While the increase in funding announced by the government offsets only a small part of the cuts councils have faced over the last decade (and the headline figures gloss over plans to reduce the share of business rates growth many councils benefit from), if spent in full it is likely to exceed the in-year cost and demand pressures facing councils, allowing them to tackle maintenance backlogs or make some modest improvements to services.

Beyond this year, the answer is that we do not know, as detailed plans for future funding arrangements have yet to be set. What we do know is that in the absence of improved productivity, the funding available from council tax and business rates is unlikely to keep pace with the rising costs of and demands for local public services, most notably adult social care services. That means big choices loom as to whether to accept the resumption of austerity for at least some local government services, or to find additional funding for them. The latter could be via providing increased levels of grant funding funded through national taxation, the devolution of additional revenue streams and revenue-raising powers to councils, or some combination of the two, with the most appropriate option depending on the priority placed on national consistency and solidarity versus local discretion and incentives.

The choices taken will affect not only the amount and type of funding available to local government, but also its distribution between different councils, and hence the extent to which service quality and council tax rates vary across councils. Decisions taken over the next year – about the future operation of the BRRS, for instance – will affect the extent to which the revenues of different councils diverge from their relative spending needs over time. We will consider the effect of different options in detail in future work, but it is also worth looking at the experience of different councils under the BRRS so far. Analysing its impacts as well as the impact of the New Homes Bonus across councils is the focus of the next chapter.

4. The impact of business rates retention and the New Homes Bonus on council funding: the story so far

The last two chapters have briefly discussed the Business Rates Retention Scheme (BRRS) in the context of past and potential future changes in funding for local government as a whole. But the scheme's main purpose is not to fund local government per se – it replaces funding councils previously received in the form of grants from central government. Instead, its main purpose, like that of the New Homes Bonus (NHB), is to provide councils with stronger financial incentives to promote local economic growth, by linking funding with proxies for growth.

In particular, the BRRS was introduced in April 2013, with the aim of incentivising councils to enable and promote the development of business and other non-domestic property in their areas. To do this, the BRRS links the amount of funding councils receive to estimated real-terms growth in local business rates revenues since 2012–13. Similarly, since April 2011, the NHB has aimed to incentivise and reward councils for enabling and promoting the construction of new housing and reuse of empty housing, through additional grant funding for every residential property built or brought back into use.

Both schemes are currently under review and will be reformed in 2021–22. We will look in full at the government's detailed proposals next year, when they are announced. But it is also worthwhile looking back at the impact of these policies so far. Which councils have benefited the most from the BRRS and NHB, and which have implicitly lost out compared with alternative uses of the funding involved – such as allocation according to assessed spending needs? Are there specific features of the design of these policies that have benefited some types of councils relative to others? And what do we know about the impact – if any – of the incentives for development that the policies are designed to create? After describing the BRRS and NHB in more detail, this chapter addresses these questions.

4.1 The BRRS and NHB policies

While the aims of the BRRS and NHB policies are simple to grasp, the operation of the policies involves a number of complexities, which are worth delving into as they help explain the differential impacts of the policies on councils across the country.

The workings of the BRRS

Until April 2013, business rates were collected by councils but then pooled nationally by central government and allocated as part of general grant funding. This meant that the funding any individual council actually received did not depend on how much revenue from business rates was raised in their area – which meant little financial incentive for councils to promote property development and business growth in their areas. The BRRS was the coalition government's answer to this issue.[44]

[44] Department for Communities and Local Government, 2012.

The scheme, as introduced in 2013–14, allocates 50% of business rates revenues directly to local government (with the remaining 50% continuing to flow to central government to be redistributed in the form of grant funding), funded by commensurate reductions in grant funding. Half of the subsequent real-terms growth in business rates revenues from then on has flowed directly to local government too.

However, this does not mean that each council gets to keep 50% of the business rates revenues raised in its area.

First, in areas where more than one council shares responsibility for delivering services, the 50% allocated to local government under the original scheme is shared between them. For example, lower-tier district councils are allocated 40%, with upper-tier counties allocated either 9% or 10%, depending on whether they are responsible for fire services. And London boroughs are allocated 30% and the Greater London Authority 20%. The rationale for these 'tier splits' is to provide the strongest financial incentives for development to those councils with the most control over planning decisions (e.g. districts and boroughs) and to insulate upper-tier counties (which are responsible for critical social care services) from funding risk associated with volatility in business rates revenues.

Second, because business rates revenues are distributed very unevenly across the country, if every council were to keep the initial share of business rates revenues allocated to it, some councils would be left with a big shortfall relative to the grant funding they previously received, while others would have a large surplus.

To avoid this, at the time the scheme was set up, the government estimated how much business rates revenue each council would need to replace the lost grant funding (called its baseline funding level), and how much its share of local revenues would actually be (called its business rates baseline). Councils where estimated revenues were higher than estimated needs had to pay tariffs equal to the difference, which in turn funded top-ups for councils where the opposite was true. And in each subsequent year, these tariffs and top-ups (as well as the underlying baselines) have been increased in line with inflation.

The upshot is that while the stock of business rates revenues at the start of the scheme continues to be redistributed (via tariffs and top-ups), just like before the introduction of the BRRS, under the original scheme local councils share up to 50% of the real-terms growth or real-terms reduction in local business rates revenues after that point.[45]

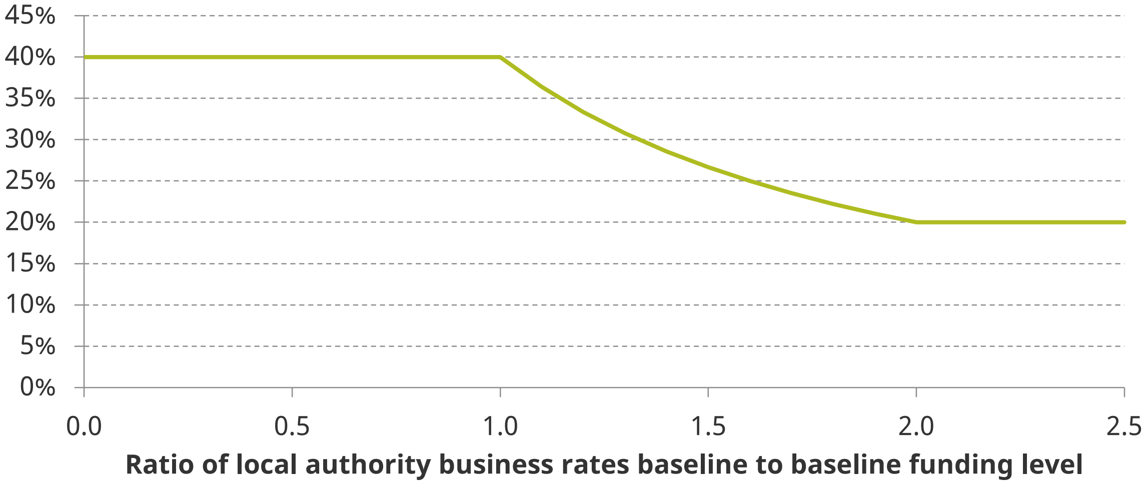
Mitigating risks: levies, safety nets, pooling and appeal provisions

The BRRS contains several features aimed at mitigating the financial risk that such exposure to the ups and downs of business rates revenues could pose.

To help protect councils' budgets from the impact of particularly large falls in business rates revenues, the scheme includes 'safety-net payments'. These prevent any council from seeing its retained business rates revenues fall below 92.5% of its baseline funding

[45] One important exception to this is increases or decreases in revenues associated with the business rates revaluation that took effect in April 2017. Business rates baselines, and hence tariffs and top-ups, were adjusted to offset the immediate impact of the revaluation on councils' retained business rates revenues in order to avoid big overnight changes. As discussed in Amin-Smith and Phillips (2017), offsetting the impact of revaluations in this way means the BRRS provides incentives for increases in the quantity and quality of non-domestic floor space but not increases in the value of that floor space.

Figure 4.1. Percentage of business rates growth retained after levy payments for a lower-tier district council



Source: Authors' calculations.

level. To help fund these payments, councils that were initially forecast to receive more revenue than they would need (i.e. those whose business rates baseline exceeds their baseline funding level and hence that pay tariffs) are subject to a 'levy' on any real-terms growth in their business rates revenues. The way these levies work means that some councils retain only half the growth initially allocated to them after accounting for levy payments – e.g. 20% as opposed to 40% for district councils, which are most likely to be subject to the maximum levy rates – as shown in Figure 4.1.

Councils are also allowed to voluntarily 'pool' their business rates revenues. Councils doing this are treated as if they are a single council for the purpose of the BRRS's system of tariffs, top-ups, safety nets and levies. How the revenues (and any increases or decreases) are shared between members of a pool is then decided by the members and set out in a pooling agreement.

Such pooling arrangements in principle allow groups of councils to jointly insure themselves against volatility in business rates revenues by sharing risk and reward. However, their main use seems to be to avoid levies: councils with high levy rates can pool with councils that do not pay levies, which brings down the overall levy rate faced by the pool (and may eliminate the levy entirely). This allows all councils within a pool to retain more than they would have done if they had remained outside such a pool.[46]

Finally, when estimating councils' likely revenues, and hence when setting tariffs and top-ups, the government took into account the fact that appeals against assessed property values would reduce the business rates revenues councils would actually collect. This meant, in effect, that the scheme built in a 'buffer' for appeals costs for each council equal to a fixed 5.15% of its forecast business rates revenues.[47] An adjustment of 4.6% was also

[46] Conversely, it makes much less sense for councils that all pay levies or all do not pay levies to pool together. This is because they do not benefit from reductions in levies, but may lose out on safety-net payments (while an individual council may see its revenues fall enough to qualify for a safety-net payment, it is much less likely that revenues will fall sufficiently across the pool as a whole).

[47] This consisted of 2.5% for backdated losses of revenue (as part of a more general estimate of revenue losses as a result of differences between forecasts and out-turns of 5.43%) and 2.65% for future losses of revenue.

made in 2017–18 to account for further appeals against the updated rateable values used to calculate business rates bills from April 2017 onwards. However, individual councils have had to bear the risk of their appeals costs being higher or lower than these fixed percentages, setting aside money (in so-called 'provisions') to cover what they estimate the costs to be. Amin-Smith and Phillips (2017) showed these risks to be significant.

Additional retention: future plans and pilots

In order to further strengthen the financial incentives for business rates revenue growth provided by the BRRS, the government plans to increase the retention rate from 50% to 75% from April 2021, after first redistributing the revenue growth that has taken place since April 2013 as part of its Fair Funding Review. The plan is then for revenue growth to be partially or fully redistributed on a phased basis, allowing councils to keep their share of the growth in full in any one year for a period of, for example, five years. The government also plans to reform how the levy works so that it only kicks in when councils experience very significant growth in their business rates revenues. Taken together, these changes – greater retention, potentially only partial resets, and a reformed levy – would mean councils seeing bigger changes to their funding as local business rates revenues rise and fall, which could lead to greater divergences in funding between different councils.[48]

However, at the same time, the government proposes to reform the BRRS so that councils do not have to bear the risk of appeals costs being higher or lower than the national average. This will, sensibly, protect councils from a risk (valuation errors and appeals) outside of their control, although its impact on overall divergences in funding between councils is unclear.

In the meantime, the government has been piloting retention rates higher than 50% in a range of councils. Four city regions plus Cornwall started piloting 100% retention in April 2017, and were joined in the 2018–19 tax year by a further 11 pilot areas including Greater London. These latter pilots were not renewed in 2019–20: instead, 16 pilots of 75% retention (some replacing 100% pilots, others completely new) were set up, again for one year only. In each instance, grant funding has been reduced at the same time, and the government claimed that this meant the pilots were cost-neutral.[49] However, the reductions in grants were based on how much extra business rates revenues councils would have received if there had been no real-terms growth since the introduction of the BRRS – and, as we shall see later, there has been substantial real-terms growth in revenues, on average, since then. Pilot councils have benefited from 75% or 100% of this rather than 50%, meaning a significant financial benefit from being made a pilot (and a significant financial cost to central government, to which that growth would have otherwise flowed).[50]

The workings of the NHB

As with business property, historically central government provided few explicit financial incentives to councils to support increases in the supply of residential property. The introduction of the NHB in April 2011 changed this, tying a portion of the grant funding

[48] See Amin-Smith and Phillips (2019a) for a discussion.

[49] Ministry of Housing, Communities and Local Government, 2017.

[50] Amin-Smith, Phillips and Simpson (2018b) estimated the gain/cost to be approximately £870 million in 2018–19. Section 4.2 below provides figures for each of 2017–18, 2018–19 and 2019–20.

councils receive to the construction of new residential properties and reuse of empty properties in their areas. It was hoped that this would encourage councils to simplify and speed up their planning and development approval processes, approve more housing development and take action (such as building access roads) that could support new development.

The main element of the NHB consists of a grant equal to 100% of the council tax due on each new or reused empty property (based on the average council tax rates set across the country).[51] This means higher payments for properties in higher tax bands – providing a bigger financial incentive and reward for bigger properties in more expensive areas.

The other component of the NHB is an additional flat-rate payment of £350 for each property built as or converted into a home that is rented or sold at a below market price as part of a registered 'affordable housing' scheme.

Both elements are split between districts and counties in areas with two-tier local government in an 80:20 split. Unlike with business rates, London boroughs receive NHB payments in their entirety, with the Greater London Authority receiving nothing (even though it has a role in the planning process and housing development).

Initially, the NHB was payable for six years after the completion, reuse or conversion of a property. Thus, total payments received by councils increased over time: in 2011–12, councils received the first year's payments for properties built or reused between October 2009 and October 2010; in 2012–13, they received the second lot of payments for those properties and the first lot for properties built or reused between October 2010 and October 2011; and so on.

A consultation in December 2015[52] suggested a number of changes to this scheme:

- reducing the number of years for which payments are made to four;
- only giving payments above a baseline increase in the housing stock;
- withholding payments where there is no Local Plan; and
- reducing payments if properties are built on appeal.

The first two suggestions were agreed and implemented progressively from April 2017. Councils received five years' worth of payments in 2017–18 and four years' worth of payments in 2018–19. And councils whose housing stock grows by less than 0.4% in a year no longer receive NHB payments for that year. The stated aim of this reform is to provide sharper incentives to councils to increase the supply of housing, and to reduce the cost of the NHB in order to release funding for other spending priorities. For instance, savings from the NHB in 2017–18 were used to fund the one-off Adult Social Care Support Grant, allocated to councils on the basis of their assessed spending needs for adult social care.

[51] The average tax rate as opposed to each council's own tax rate was used so that councils setting low tax rates were not penalised under the NHB, and to avoid incentivising increases in council tax rates.

[52] Department for Communities and Local Government, 2015a.

The government proposes to maintain the NHB in its current form in 2020–21 but is reviewing options for 2021–22 and beyond. However, unlike for the BRRS, no proposals (or consultation documents) have been published yet.

4.2 How has the BRRS affected council funding?

National picture

In its first year of operation, 2013–14, the business rates revenues retained by councils amounted to £11.8 billion in today's prices.[53] For the current financial year, 2019–20, councils' business rates revenue forecasts imply retained business rates revenues of £17.5 billion, a real-terms increase of £5.6 billion or 48%.

Figure 4.2 shows that, of this increase, a significant part is not really growth in councils' revenues:

- Around £2.9 billion (25 percentage points) reflects the replacement of grant funding with retained business rates revenues in areas piloting 75% or 100% retention. In other words, this increase in retained business rates revenues is exactly offset by reductions in grant funding.

But part of the growth is genuine above-inflation growth in revenues:

- Around £1.4 billion (12 percentage points) as a result of growth that would be due under the standard 50% retention scheme.
- Around £0.7 billion (6 percentage points) as a result of additional growth retained in pilot areas under 75% or 100% retention.

This means that overall above-inflation growth in retained business rates since 2013–14 accounts for £2.1 billion (18 percentage points) of the real-terms increase in retained business rates between 2013–14 and 2019–20.[54]

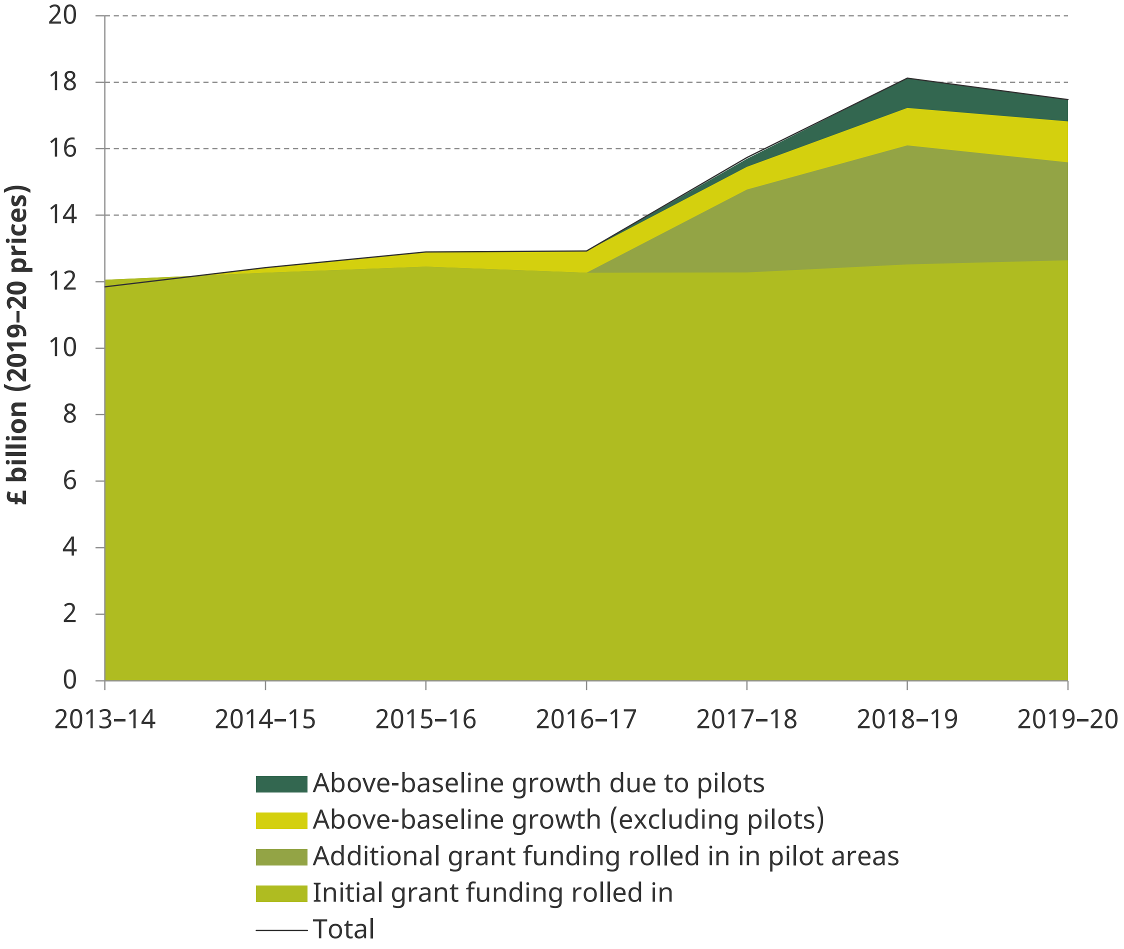
However, as the figure also shows, revenues in 2013–14 actually fell short of baseline funding levels: some of the growth seen since 2013–14 has been undoing this initial shortfall. We therefore estimate that retained growth above RPI-indexed baseline funding levels in 2019–20 will be £1.9 billion, with total growth retained since 2013–14 amounting to £5.9 billion.[55]

[53] This and other figures in this section (unless otherwise stated) are based on calculations using final business rates revenue out-turns reported in National Non-Domestic Rate Return 3 (NNDR3) forms for 2013–14 to 2017–18 and forecasts reported in National Non-Domestic Rate Return 1 (NNDR1) forms for 2018–19 and 2019–20. Hence, this and subsequent figures differ from those incorporated into councils' overall revenue figures for these years as recorded in the Revenue Outturn Summary (RS) forms, which are based on NNDR1 forms for the year in question, with adjustments to account for forecast errors in the subsequent two years.

[54] The remaining £0.6 billion (5 percentage points) reflects the fact that the measure of inflation initially used in the BRRS to update baselines, tariffs and top-ups – the flawed RPI – has been higher than the economy-wide measure of inflation we use to work out real-terms changes in revenues and spending in this report.

[55] This figure differs from those reported by MHCLG as it compares retained business rates revenues with what baseline funding levels would be if they had been indexed to RPI inflation each year as initially planned. In reality, when the government capped business rates bill increases at 2% in April 2014 and 2015, and increased

Figure 4.2. Breakdown of the amount of business rates revenues retained by local government, 2013–14 to 2019–20



Note: See footnote 55.

Source: Authors' calculations using revenue out-turns (NNDR3s) for 2013–14 to 2017–18 and forecasts (NNDR1s) for 2018–19 and 2019–2020 and IFS's local government finance model.

Figure 4.2 also shows that since 75% and 100% retention pilots began in 2017–18, pilot councils have retained an additional £1.8 billion of funding above what they would have retained under the standard 50% scheme: around £0.25 billion in 2017–18 and £0.9 billion in 2018–19, in addition to the aforementioned £0.7 billion in 2019–20.

How have different councils fared under the BRRS?

Given differences in growth in underlying business rates revenues and the design of the BRRS (including pilots of additional retention in large swathes of the country), different councils have retained very different amounts of above-baseline growth in business rates.

them by the lower CPI inflation in April 2018 and 2019, it decided to index baseline funding levels to these lower amounts too. But it also paid so-called Section 31 grants and adjusted tariffs and top-ups (both of which are recorded as part of retained business rates revenues in councils' accounts), to compensate councils for this under-indexation of business rates bills and baseline funding levels. If we compared retained business rates revenues with the under-indexed baselines, we would be counting this 'compensation' as growth, which we do not consider appropriate. We have therefore decided to compare retained business rates revenues with RPI-indexed baseline funding levels when calculating growth to avoid doing this.

As shown in Table 4.1, these differences are reflected in differences across regions and council types. The left-hand panel shows our estimates of how much above-baseline growth councils in different regions and of different types have retained since 2013–14 including the additional growth retained as a result of pilots. The right-hand panel shows figures excluding pilots, which allows for a comparison of effects under a scheme with a common design (i.e. 50% retention).

Including the additional growth received from pilots, the left-hand panel shows that London councils have retained the most growth in cash terms, both in aggregate (£1.8 billion) and per-person (£197) terms since 2013–14. Roughly two-thirds of this growth has gone to London boroughs and one-third to the Greater London Authority (GLA).

Given the North East has the smallest population, it is unsurprising that councils in that region have seen the least growth in aggregate (£83 million), but they have also seen by far the least growth per person (£31) since 2013–14. Indeed, the next two worst-performing regions – the South West (£57) and the East of England (£71) – have seen around double the retained growth of the North East.

Measured as a percentage of fiscal revenues (council tax plus grant plus retained business rates), above-baseline growth has also been biggest in London (2.12%). The North East again sees the lowest retained growth (0.41%).

Looking at the right-hand panel, though, which shows figures excluding the additional growth retained as a result of pilots, provides a somewhat different picture. Without the pilots, we estimate councils in London would have retained little more than half (£0.9 billion or £99 per person) what they actually have. And retained revenues per person would have been highest in the East Midlands (£101).

Comparison of the two panels shows that councils in London, the West Midlands and the North West have gained the most from pilots – £98, £32 and £31 per person, respectively. In London's case, this partly reflects the much bigger business rates tax base of the capital. In the West Midlands and the North West, it reflects the fact that Greater Birmingham, Greater Manchester and Merseyside started piloting 100% retention earlier and remained on 100% schemes when most other pilots moved to 75% retention in 2019–20.

Turning to impacts across council types, probably the most notable difference is between counties and districts in two-tier areas. *Including* the additional growth retained as a result of pilots, we estimate that counties have retained growth of £33 per person since 2013–14 compared with £52 for districts. Given counties' much bigger budgets, these are equivalent to 0.63% and 4.99% of fiscal revenues, respectively. *Excluding* the effects of pilots, the right-hand panel of the table shows that we estimate counties would have retained growth of £25 per person and districts growth of £47 per person, equivalent to 0.48% and 4.50% of fiscal revenues, respectively.

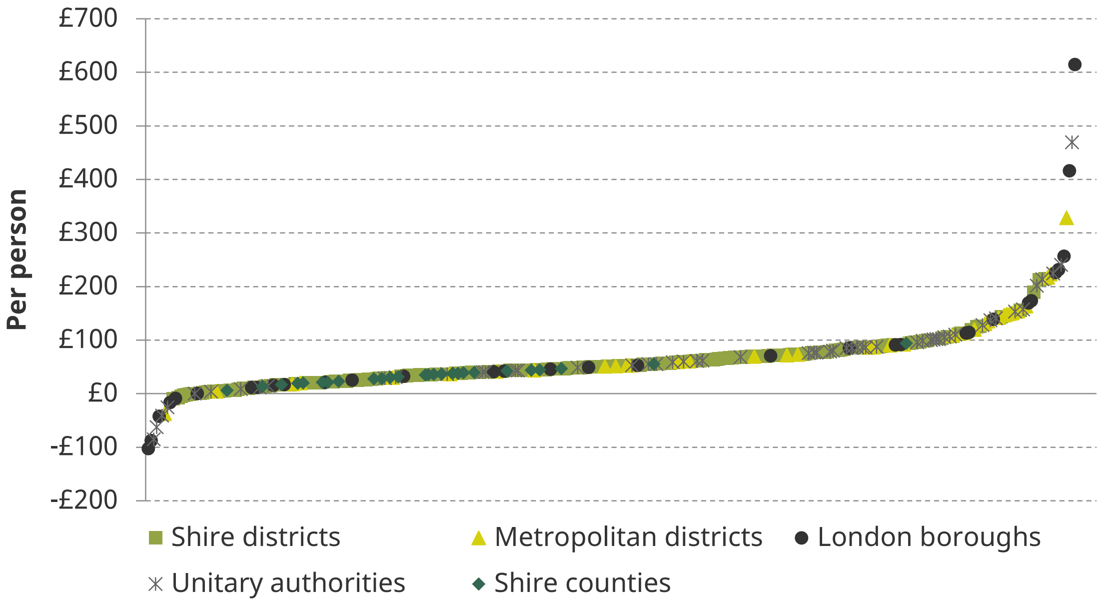
Table 4.1. Above-baseline growth in retained business rates by region and council type, 2013–14 to 2019–20 (cumulative)

		Total increase above baselines			Excluding additional increase from pilots		
		Cash amount	Cash amount per person	As a % of fiscal revenues	Cash amount	Cash amount per person	As a % of fiscal revenues
Region	East of England	£440m	£71	1.12%	£397m	£64	1.01%
	East Midlands	£566m	£119	1.84%	£483m	£101	1.57%
	London	£1,755m	£197	2.12%	£880m	£99	1.06%
	North East	£83m	£31	0.41%	£80m	£30	0.39%
	North West	£683m	£94	1.31%	£457m	£63	0.88%
	South East	£808m	£89	1.39%	£604m	£67	1.04%
	South West	£369m	£57	1.05%	£282m	£44	0.80%
	West Midlands	£608m	£104	1.53%	£423m	£72	1.07%
	Yorkshire and Humber	£510m	£94	1.40%	£426m	£78	1.16%
Two-tier areas	Shire counties	£727m	£33	0.63%	£554m	£25	0.48%
	Shire districts	£1,137m	£52	4.99%	£1,025m	£47	4.50%
London	London boroughs	£1,169m	£132	1.85%	£659m	£74	1.04%
	GLA	£587m	£65	2.98%	£220m	£24	1.12%
Single-tier areas	Metropolitan districts	£1,182m	£99	1.37%	£761m	£64	0.88%
	Unitary authorities	£1,021m	£73	1.18%	£812m	£58	0.94%

Note: Excludes fire authorities.

Source: As for Figure 4.2.

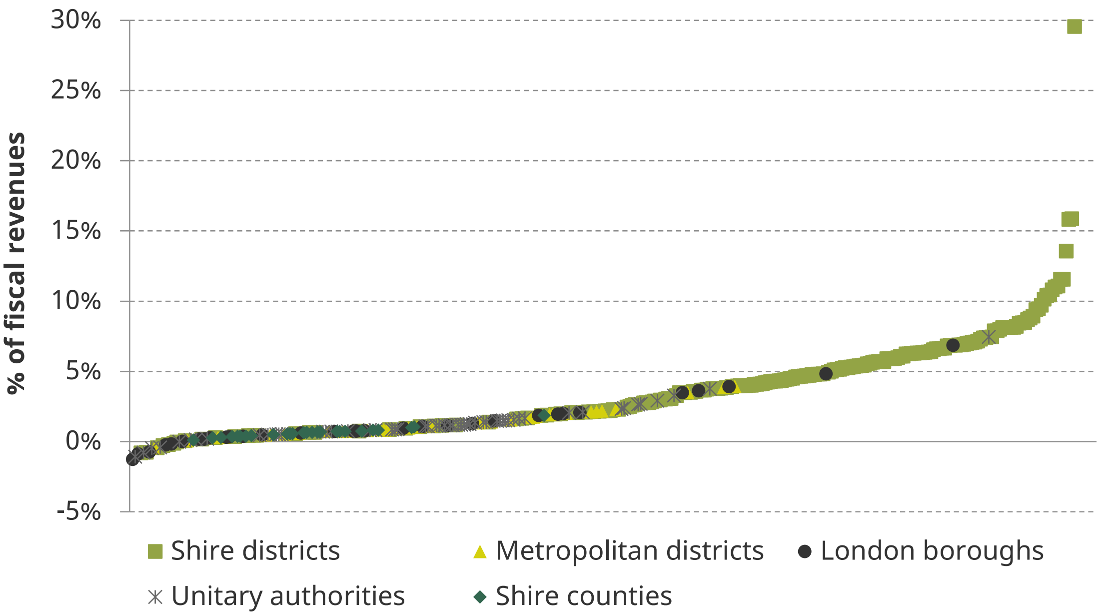
Figure 4.3. Above-baseline growth in retained business rates by council, £s per person, 2013–14 to 2019–20 (cumulative)



Note: Excludes fire authorities and Greater London Authority.

Source: As for Figure 4.2.

Figure 4.4. Above-baseline growth in retained business rates by council, % of fiscal revenues, 2013–14 to 2019–20 (cumulative)



Note: Excludes fire authorities.

Source: As for Figure 4.2.

The fact that districts receive more growth in cash terms is a direct result of the design of the BRRS. Recall that districts are initially allocated an 80% share and counties a 20% share of the 50% of local growth (and decline) in revenues under the 50% scheme. The operation of levies and pooling arrangements means that, excluding the additional growth retained under pilot schemes, districts ultimately receive around 65% and counties around 35% of the retained growth in two-tier areas. Including the additional growth retained under pilot schemes, this split is closer to 60% and 40%, reflecting the fact that the architects of most pilot schemes have decided to allocate relatively more of the growth (and decline) in local business rates to counties than under the standard 50% scheme. Indeed, we estimate that of the £285 million additional retained growth as a result of pilots in two-tier areas, counties received 61% (£173 million) and districts 39% (£112 million). We return to the issue of the sharing of retained rates revenues in two-tier areas later.

Of course, this variation across regions and council types reflects even greater variation across individual councils, as illustrated in Figures 4.3 and 4.4.

Figure 4.3 shows that London boroughs, and to a lesser extent metropolitan districts, are over-represented among both those whose retained revenues have been below RPI-indexed baselines and those that have retained the most above-baseline growth, measured in per-person terms. More generally, we estimate that one-in-ten councils have retained less than £9 per person of above-baseline growth over the last seven years, and around one-in-twenty have actually seen losses relative to RPI-indexed baselines. At the other end of the scale, we estimate that one-in-ten councils will have retained £128 or more per person over this period and one-in-twenty more than £168.

Figure 4.4 shows that measured as a percentage of fiscal revenues, by far the biggest variation in impacts is among shire districts. This reflects the fact that, as discussed above, shire districts have relatively low revenues overall, so given cash-terms differences in impact translate into bigger percentage differences. We estimate that one-in-ten shire districts have retained cumulative above-baseline growth of 8.5% or more, while another one-in-ten have retained growth of 1.0% or less. There is much less variation among counties given their big budgets: we estimate that all counties have retained above-baseline growth of between 0.1% and 1.9%.

What if funding had instead been allocated to councils on the basis of assessed spending needs?

It is important to realise that while retained business rates have grown in real terms and now provide £1.9 billion of funding above RPI-indexed baseline funding levels, this does not mean that councils as a whole have benefited from the BRRS. In the absence of the BRRS, this growth would have flowed to central government but it could have allocated this to councils in full or in part. The truth is we just do not know how funding would have been allocated in the absence of the BRRS, so we cannot say how much local government has gained (or lost) as a result of the scheme.

However, we can examine the *relative* gains and losses different councils have faced, compared with what they would have received had the equivalent funding instead been allocated to local government in some other way. In what follows, we look at what they have gained or lost relative to the case if above-RPI-indexed-baseline growth in revenues had instead been allocated in line with councils' assessed spending needs under existing relative needs formulas (RNF). This is only one possible counterfactual use of the funding but is a relevant one which has been used to allocate other funding in recent years; for example, ring-fenced funding for children's and adults' social care has generally been allocated according to assessed spending needs for these service areas.

Table 4.2 shows the relative gains and losses by region and council type, again including pilots in the left-hand panel and excluding them in the right-hand panel.

The table shows that including the effects of pilots, councils in London have received significantly more funding under the BRRS than they would have if the same funding had been allocated according to assessed spending needs – around £527 million or £59 per person over the last seven years. In contrast, they would have gained much less in the absence of the pilots – just £29 million or £3 per person. This reflects the fact that London councils have relatively high assessed spending needs and would have received significant funding on a needs-based allocation too.

Councils in the North East are shown to have been the biggest relative losers – reflecting the relatively small amounts of retained growth from the BRRS and relatively high assessed spending needs. We estimate they would have received around £212 million more funding over the last seven years if funding had been allocated according to spending needs as opposed to under the BRRS (including the effects of pilots). Even excluding the additional growth retained as a result of pilots (of which councils in the North East have received very little), they would have received £125 million more from allocation according to assessed spending needs as opposed to under the standard 50% BRRS.

Turning to council types, again the most notable contrast is between counties and districts in two-tier areas. Over the last seven years, counties are estimated to have lost around £899 million (or 0.77% of fiscal revenues) relative to a needs-based allocation and districts gained £760 million (3.33% of fiscal revenues). This reflects the fact that, as discussed above, counties receive a relatively low share of retained growth under the BRRS but have much higher assessed spending needs than districts and would therefore have received a much larger share on that basis.

Table 4.2 also shows that including the additional growth pilot areas have retained, we estimate two-tier areas as a whole have received slightly less funding than they would have if it had been allocated on the basis of assessed spending needs. This reflects the fact that there have been relatively fewer (and less generous) pilots in two-tier areas than in London and metropolitan areas, for instance. But two-tier areas have gained more under the standard 50% BRRS than they would have if funding were allocated according to assessed spending needs. This reflects the fact that two-tier areas are typically assessed to have relatively low spending needs.

Again, this variation across regions and council types reflects even greater variation across individual councils, as illustrated in Figures 4.5 and 4.6.

Two key points stand out:

- First, we estimate that all bar one county council has seen less funding under the BRRS than if above-baseline growth had instead been allocated according to assessed spending needs. This reflects the fact that they have retained less than 40% of the above-baseline growth in business rates that has occurred in two-tier areas, but account for a majority of assessed spending needs in those areas. Their large budgets mean that losses have been relatively small as a percentage of fiscal revenues though – no more than 1.4% in any case over the period 2013–14 to 2019–20 as a whole.

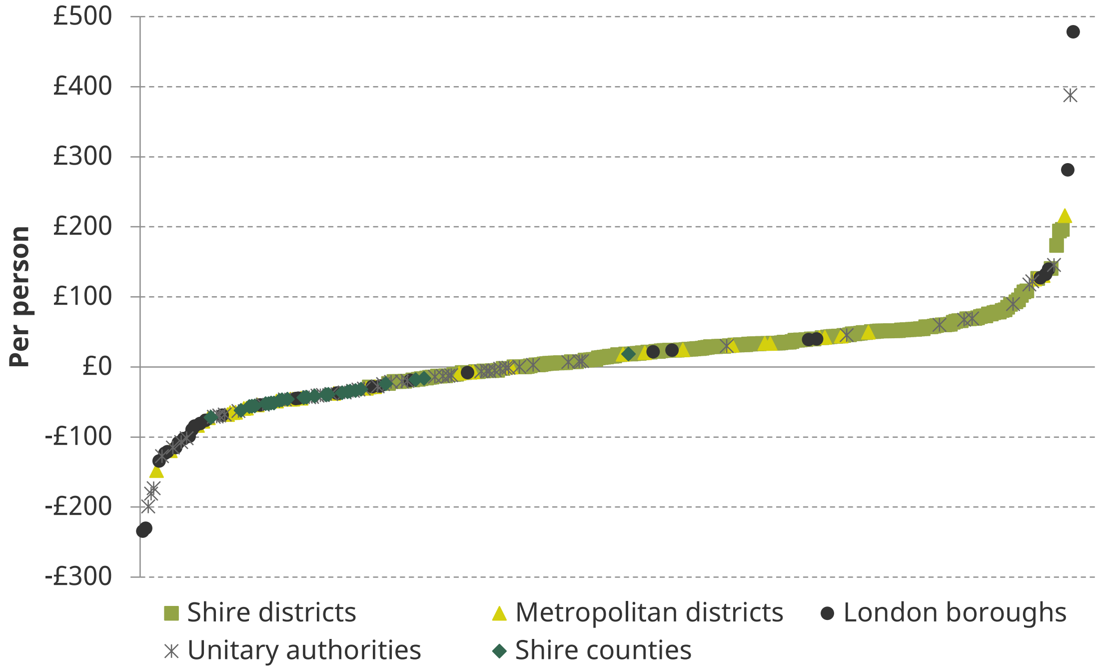
Table 4.2. Relative gain or loss under the BRRS compared with allocating equivalent funding on the basis of councils' assessed spending needs, 2013–14 to 2019–20 (cumulative)

		Actual			Without pilots		
		Cash amount	Cash amount per person	As a % of fiscal revenues	Cash amount	Cash amount per person	As a % of fiscal revenues
Region	East of England	–£138m	–£22	–0.35%	–£3m	£0	–0.01%
	East Midlands	£109m	£23	0.36%	£167m	£35	0.54%
	London	£527m	£59	0.64%	£29m	£3	0.03%
	North East	–£212m	–£80	–1.05%	–£125m	–£47	–0.62%
	North West	–£88m	–£12	–0.17%	–£77m	–£11	–0.15%
	South East	£1m	£0	0.00%	£46m	£5	0.08%
	South West	–£162m	–£25	–0.46%	–£86m	–£13	–0.25%
	West Midlands	£5m	£1	0.01%	£6m	£1	0.01%
	Yorkshire and Humber	–£41m	–£7	–0.11%	£44m	£8	0.12%
Two-tier areas	Shire counties	–£899m	–£41	–0.77%	–£572m	–£26	–0.49%
	Shire districts	£760m	£35	3.33%	£764m	£35	3.35%
London	London boroughs	£174m	£19	0.27%	–£29m	–£3	–0.05%
	GLA	£353m	£39	1.79%	£59m	£6	0.30%
Single-tier areas	Metropolitan districts	–£120m	–£10	–0.14%	–£141m	–£12	–0.16%
	Unitary authorities	–£268m	–£19	–0.31%	–£80m	–£6	–0.09%

Note: Excludes fire authorities.

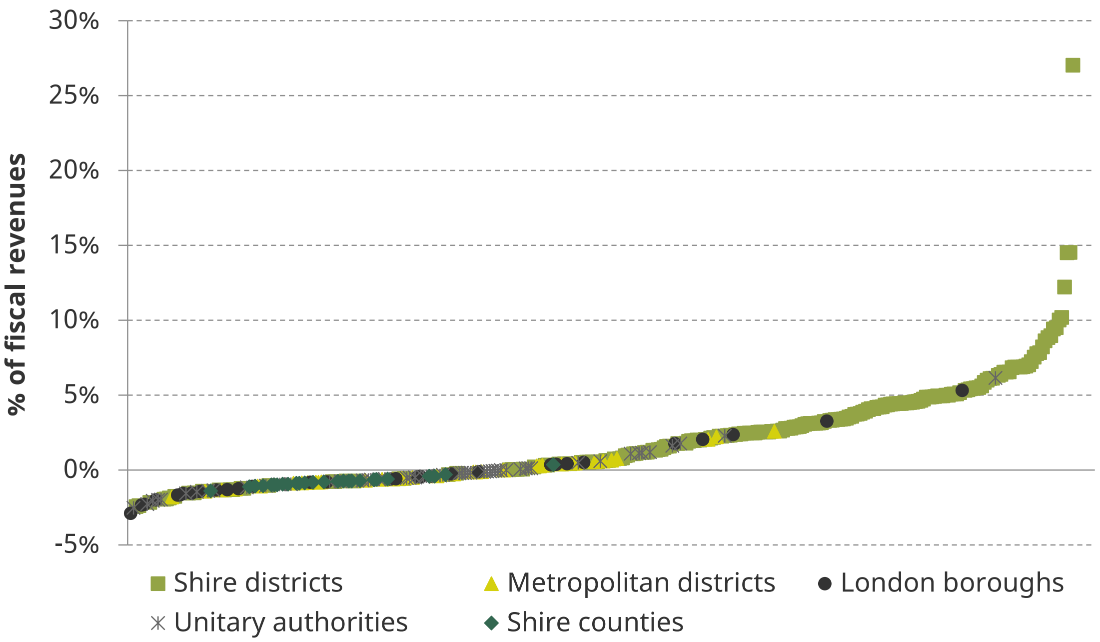
Source: As for Figure 4.2, plus local authority relative needs formulas (RNFs).

Figure 4.5. Relative gain/loss under the BRRS relative to equivalent funding being allocated according to assessed spending needs, £s per person, 2013–14 to 2019–20 (cumulative)



Source: As for Figure 4.2, plus local authority relative needs formulas (RNFs).

Figure 4.6. Relative gain/loss under the BRRS relative to equivalent funding being allocated according to assessed spending needs, % of fiscal revenues, 2013–14 to 2019–20 (cumulative)



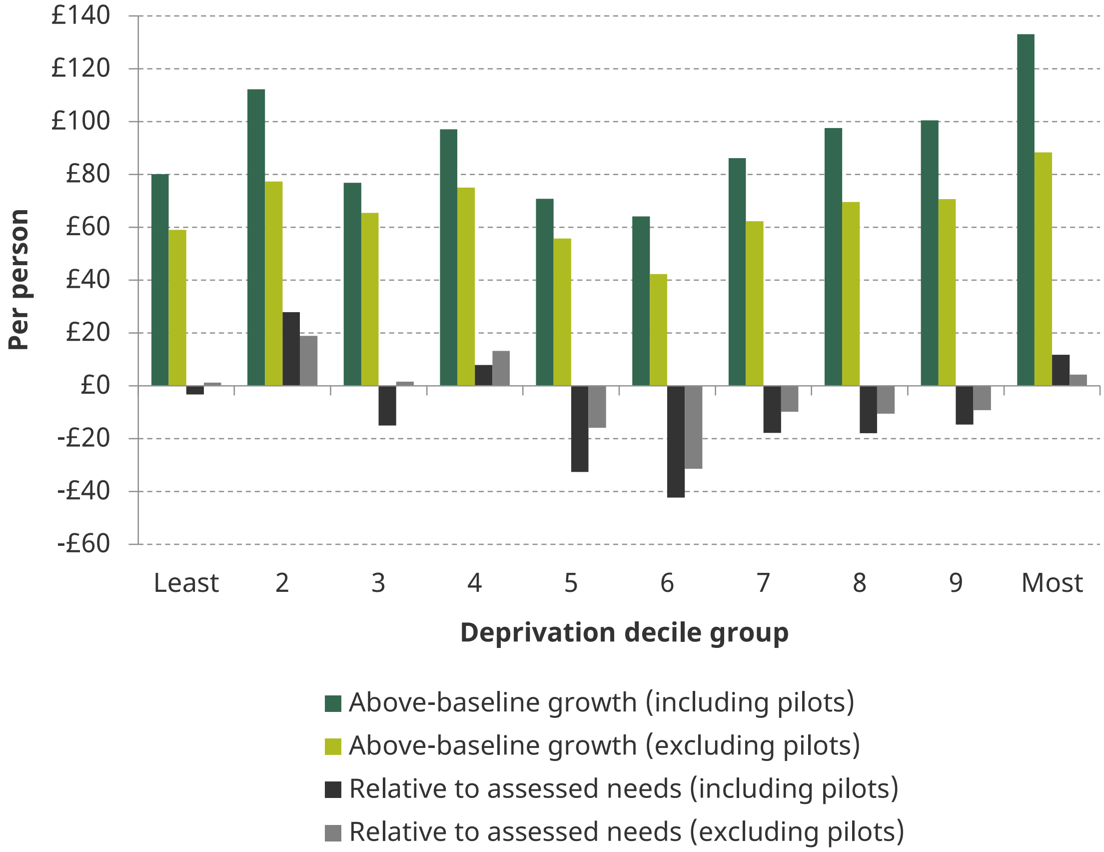
Source: As for Figure 4.2, plus local authority relative needs formulas (RNFs).

- Second, a large majority of shire districts have seen more funding under the BRRS than if above-baseline growth had instead been allocated according to assessed spending needs. This reflects the fact that they have retained more than 60% of the above-baseline growth in business rates revenue that has occurred in two-tier areas, but account for only a minority of assessed spending needs in those areas. We estimate that only around one-in-eight districts have received less than they would have if funding had instead been allocated according to assessed spending needs. Half have received at least the equivalent of 2.9% of fiscal revenues more than they would have, and one-in-ten have received at least 6.9% of fiscal revenues more.

Have councils covering more or less deprived areas done better from the BRRS?

Finally, one might anticipate that councils serving deprived areas would have done less well under the BRRS than councils serving more affluent areas. Figure 4.7 shows this not to be the case, at least when looking at above-baseline growth in retained revenues (the first two sets of bars). Taking account of pilots, for instance, we estimate upper-tier council areas in the top 10% of deprivation have retained above-baseline growth totalling £133 per person, on average, since 2013–14, while those in the least deprived 10% have retained growth totalling £80 per person. In the absence of pilots, we estimate these amounts would have been £88 and £59, respectively.

Figure 4.7. Impact of the BRRS by deprivation decile group of council area



Source: As for Figure 4.2, plus Ministry of Housing, Communities and Local Government (2015) and local authority relative needs formulas (RNFs).

Looking at gains and losses relative to allocating equivalent funding in proportion to assessed spending needs, councils with mid-to-high levels of deprivation have, on average, seen small losses, while those with lower levels of deprivation have, on average, seen small increases. This reflects the fact that councils serving more deprived areas have relatively high assessed spending needs and would have therefore received relatively more if funding had been allocated in line with these. But, as we shall see in the next section, this pattern is less significant than for the NHB, where councils in deprived areas have seen lower payments per person (and not just a relative loss due to their high assessed spending needs), driven by the fact that bigger payments are provided for houses in higher council tax bands.

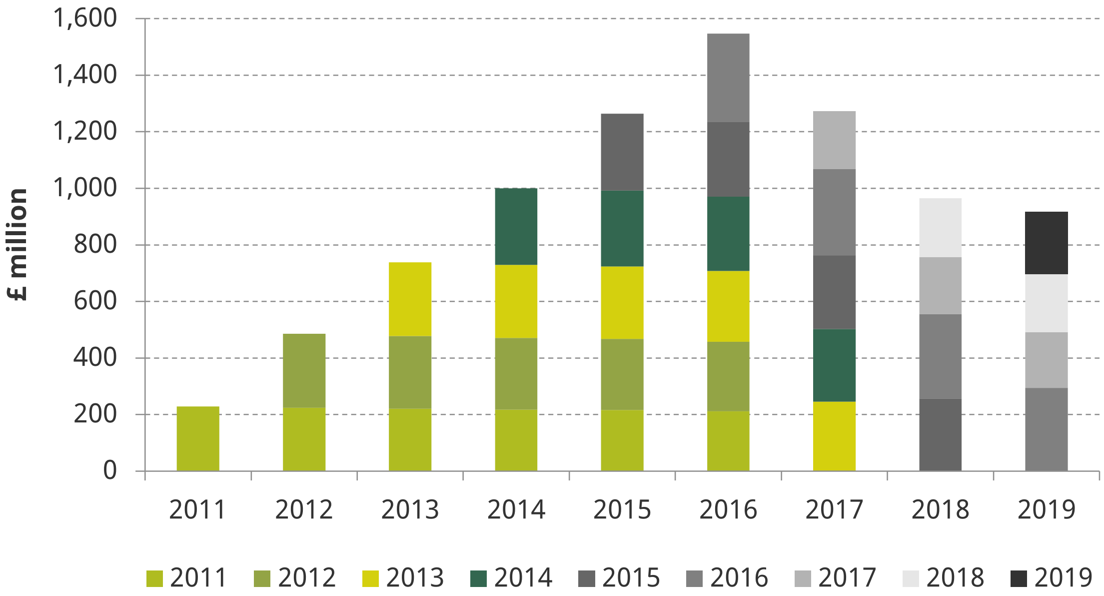
4.3 How has the NHB affected council funding?

National picture

As discussed above, NHB payments were initially paid for six years after completion, conversion or reuse. Hence, total annual payments increased each year between 2011–12, when they amounted to £229 million, and 2016–17, when they amounted to £1.5 billion, as payments moved from being based on one year's worth of housing development to six years' worth. As shown in Figure 4.8, total annual payments have subsequently declined as payments moved to being based on five years' worth of development in 2017–18 and four years' worth of development since 2018–19, and as new payments moved to only being made for growth in the housing stock of at least 0.4% per year. Payments fell to £1.3 billion in 2017–18, £1.0 billion in 2018–19 and a planned £0.9 billion in 2019–20.

The figure also shows that payments made for properties developed in a given year increased from £229 million in 2011–12 to £311 million in 2016–17. This reflects the fact

Figure 4.8. New Homes Bonus payments, by year and year in which the property was developed (i.e. constructed, converted or reused)



Source: Authors' calculations using figures in Ministry of Housing, Communities and Local Government (2019c) and prior years' equivalents.

that the number of properties on which the NHB was due increased from 133,666 to 189,643 between these two years. Payments made for properties developed in 2017–18 and later have fallen back, reflecting the fact they are now only received when the housing stock in a local area grows by at least 0.4% in a year.

How have different councils fared under the NHB?

Different councils have seen very different payments under the NHB, driven both by differences in rates of house-building and by the design of the NHB. As with the BRRS, this has led to significant differences in payments across regions and council types. This is illustrated in the left-hand panel of Table 4.3, which also shows relative gains and losses compared with allocating the equivalent funding according to assessed spending needs (right-hand panel).[56]

Councils in London have received the most both in aggregate terms (£1.8 billion) and per person (£207) since the introduction of the NHB. Councils in the North East have received the least in aggregate terms (£0.3 billion), which is perhaps unsurprising given that it is the smallest region, and the second-least per person (£113), just ahead of the North West (£110). This reflects both differences in the numbers of properties (MHCLG estimates that the number of dwellings increased by 7.5% in London between 2009 and 2018, for instance, versus 5.1% in the North East[57]) but also the bands those properties are in (the median property currently being Band D in London but only Band A in the North East[58]) which means the amount received per property in London is higher. More generally, payments have been higher in southern regions than northern regions, again reflecting bigger increases in the housing stock (7.3% versus 5.2%) and higher payments per property.[59]

The right-hand panel of the table also shows that councils in the north have received less under the NHB than they would have if the equivalent funding had been allocated on a needs basis, and councils in the south have received more. We estimate councils in the North West have received £378 million less since 2011–12, while councils in London have received £286 million more, for instance.

Looking at differences by council type, the most notable are between counties and districts in two-tier areas, which reflects the fact that they are allocated 20% and 80% of NHB payments for their areas, respectively. Thus districts have received four times as much (£2.7 billion) as counties (£0.7 billion) over the last nine years. Given districts' small budgets, their payments amount to almost 10% of their fiscal revenues over this period, compared with less than 0.5% for counties. Whether the split is appropriate depends on the extent to which we think the NHB provides an effective incentive to councils to support and facilitate housing development, and whether we think that it is district councils (with

[56] Funding for the NHB has been top-sliced from the funding provided to councils in the form of Revenue Support Grant and business rates baseline funding levels. With some assumptions (e.g. about how additional funding would have been split between counties and districts in two-tier areas), we could have modelled how much councils are gaining or losing relative to what they would have received in the absence of top-slicing. However, we have chosen to model gains and losses relative to allocating according to assessed spending needs to make the results comparable to those from our analysis of the BRRS.

[57] Ministry of Housing, Communities and Local Government, 2019d.

[58] Valuation Office Agency, 2019.

[59] Southern regions = East, South East and South West. Northern regions = North East, North West, and Yorkshire and Humberside.

Table 4.3. NHB payments by region and council type, and comparison with alternative funding allocation according to councils' assessed spending needs, 2011–12 to 2019–20 (cumulative)

		Payments			Relative to allocation according to assessed spending needs		
		Cash amount	Cash amount per person	As a % of fiscal revenues	Cash amount	Cash amount per person	As a % of fiscal revenues
Region	East of England	£1,011m	£167	1.99%	£139m	£23	0.27%
	East Midlands	£700m	£150	1.77%	£11m	£2	0.03%
	London	£1,785m	£207	2.19%	£286m	£33	0.35%
	North East	£297m	£113	1.13%	–£149m	–£57	–0.57%
	North West	£786m	£110	1.17%	–£378m	–£53	–0.56%
	South East	£1,453m	£163	1.95%	£240m	£27	0.32%
	South West	£1,007m	£160	2.23%	£206m	£33	0.46%
	West Midlands	£741m	£129	1.44%	–£169m	–£29	–0.33%
	Yorkshire and Humber	£639m	£119	1.35%	–£193m	–£36	–0.41%
Two-tier areas	Shire counties	£689m	£32	0.46%	–£1,764m	–£82	–1.19%
	Shire districts	£2,746m	£129	9.31%	£2,182m	£102	7.40%
Single-tier areas	Metropolitan districts	£1,286m	£109	1.15%	–£680m	–£58	–0.61%
	London boroughs	£1,785m	£207	2.19%	£286m	£33	0.35%
	Unitary authorities	£1,914m	£140	1.71%	–£31m	–£2	–0.03%

Note: London's fiscal revenue figures exclude Greater London Authority in this instance as NHB is not payable to the GLA.

Source: As for Figure 4.8, plus local authority relative needs formulas (RNFs).

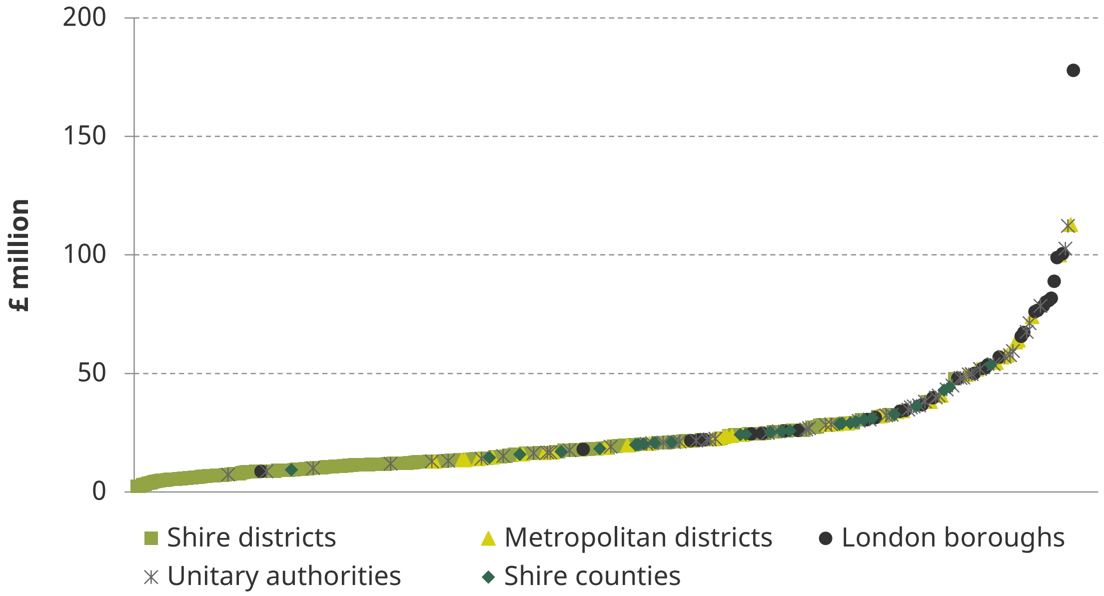
their planning responsibilities) that it is most important to incentivise. As we discuss later, evidence on the impact of the NHB is unfortunately somewhat lacking.

The right-hand panel of Table 4.3 shows that relative to allocating the equivalent funding according to assessed spending needs, counties have lost out on almost £1.8 billion (1.19% of fiscal revenues) and districts gained almost £2.2 billion (7.40% of fiscal revenues). However, two-tier areas have gained around £0.4 billion overall, which reflects both their above-average NHB receipts and their below-average assessed spending needs. As a group, metropolitan districts have been relative losers (around £0.7 billion), reflecting both their below-average NHB receipts (due to relatively slow growth in the housing stock and low payments per property) and their high assessed spending needs.

The variation across regions and council types, of course, reflects even greater variation in payments and relative gains and losses across individual councils, as illustrated in Figures 4.9–4.11.

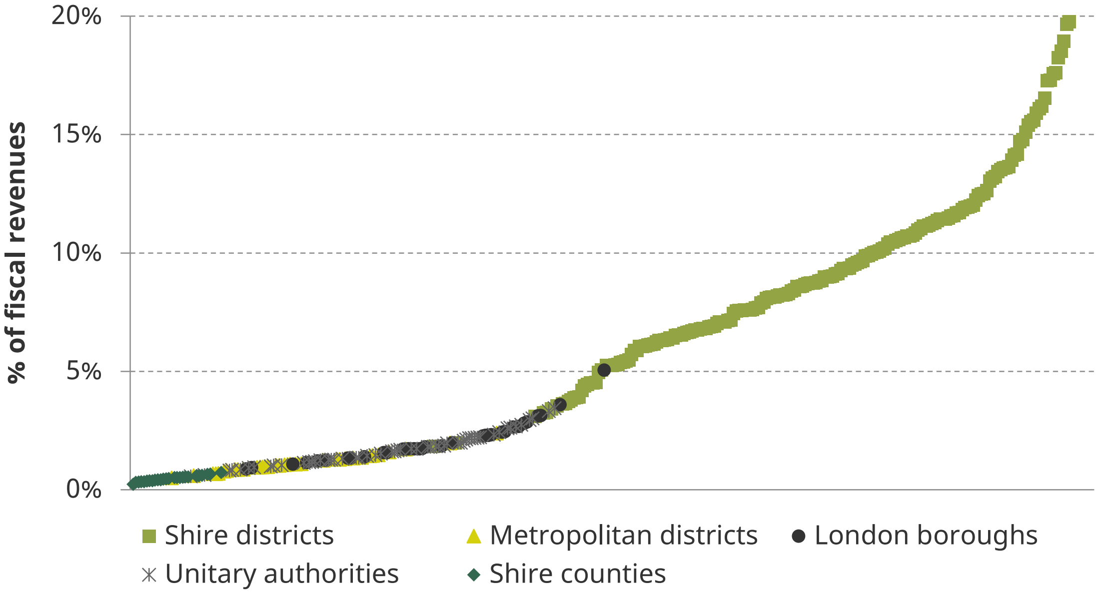
Figure 4.9, for instance, shows that five councils (Hackney, Wiltshire, Cornwall, Birmingham and Tower Hamlets) have received more than £100 million in NHB payments over the last nine years – in the last case, equivalent to more than £600 per person. It also shows that in absolute cash terms, many shire districts have received relatively little, with 11 in the north, midlands and on the south coast receiving less than £5 million over the last nine years. Indeed, almost a third have received less than £10 million over this period, compared with just five councils of other types and only one county council (Cumbria), This is because although they receive the bulk of NHB payments in two-tier areas, individually they cover relatively small areas, some of which have seen little in the way of housing development. Counties, despite receiving only 20% of payments in two-tier areas, cover much larger areas.

Figure 4.9. Total NHB payments by council, 2011–12 to 2019–20 (cumulative)



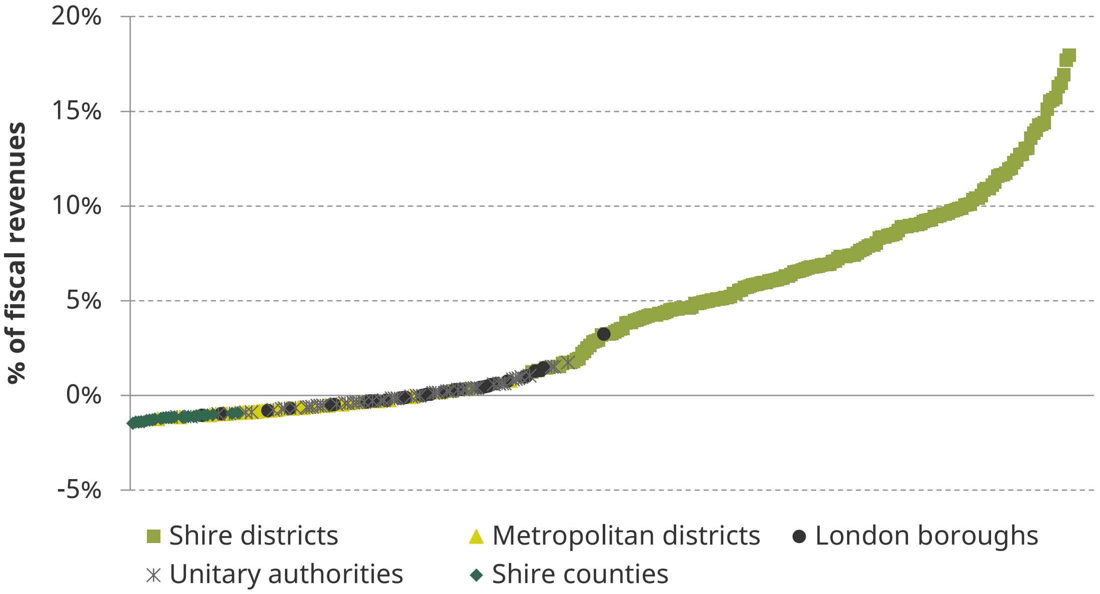
Source: As for Figure 4.8.

Figure 4.10. NHB payments as a % of fiscal revenues by council, 2011–12 to 2019–20 (cumulative)



Source: As for Figure 4.8.

Figure 4.11. Gain/loss from the NHB as a % of fiscal revenues relative to allocating equivalent funding according to assessed spending needs, 2011–12 to 2019–20 (cumulative)



Source: As for Figure 4.8.

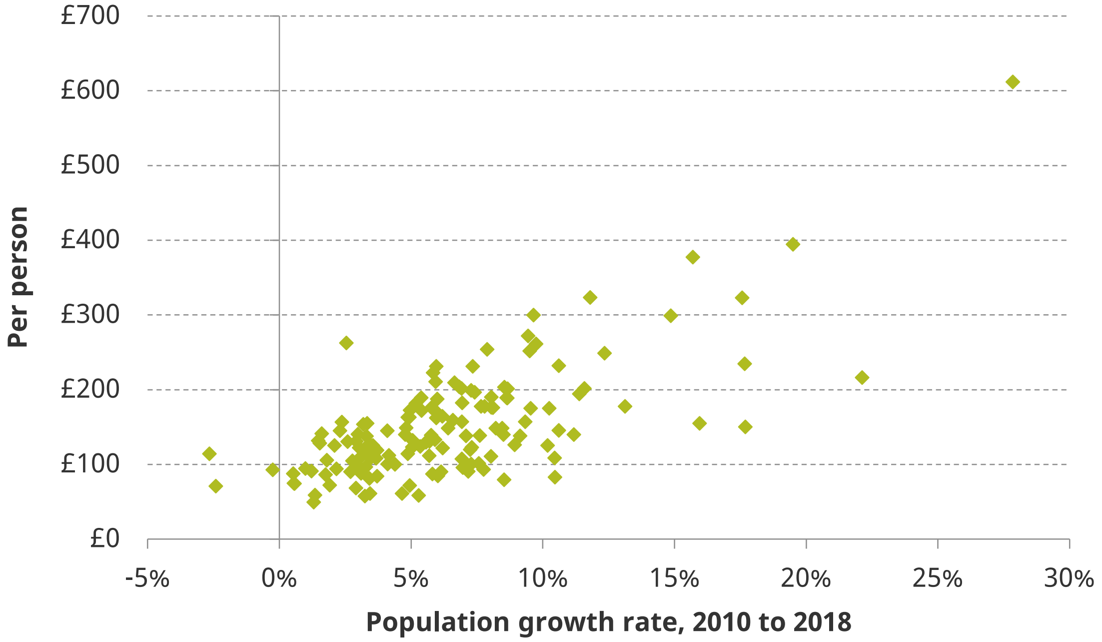
Figure 4.10 shows that measured as a percentage of fiscal revenues though, shire districts have seen by far the largest NHB payments – and the most variation in payments. For example, one-in-ten districts have seen payments equivalent to at least 14% of their fiscal revenues over the last nine years, half have seen payments of 8.7% or more, and nine-in-ten have seen payments of 4.5% or more. In contrast, only one other council (Tower Hamlets) has seen a payment equivalent to (just) more than 5% of fiscal revenues. And the county with the highest receipts has received NHB payments equivalent to 0.73% of fiscal revenues, reflecting counties' small share of receipts and much higher overall revenues.

As a result, Figure 4.11 shows that we estimate that all county councils have lost out compared with the case if equivalent funding had been allocated according to assessed spending needs – by between 0.9% and 1.5% of their actual fiscal revenues. We also estimate that all bar two metropolitan districts (Wakefield and Salford) have seen less funding from the NHB than they would have received under a needs-based allocation. In contrast, we estimate that 18 out of 32 London boroughs have seen more funding under the NHB than they would have received. And all districts have seen more funding – with one-in-ten gaining the equivalent of at least 12.4% of fiscal revenues since 2011–12, half gaining at least 6.7% and fully nine-in-ten gaining at least 2.8%.

Figures 4.12 and 4.13 look at how NHB receipts per person have varied across upper-tier council areas depending on how fast the local population grew between 2010 and 2018 and how deprived the area is. They show that:

- Unsurprisingly, higher population growth is associated with bigger NHB receipts per person. But there is still significant variation among councils with similar population growth levels – for instance, receipts per person vary from around £60 per person to almost £200 per person for councils seeing population growth of around 5%. And Kensington and Chelsea has seen payments totalling £114 per person over the last nine years despite a near-3% decline in its population, while Redbridge in outer London has seen payments of just £83 per person despite population growth of over 10%. This reflects the fact that while housing development and population growth are linked, they need not accompany each other: properties may be built and remain empty or under-

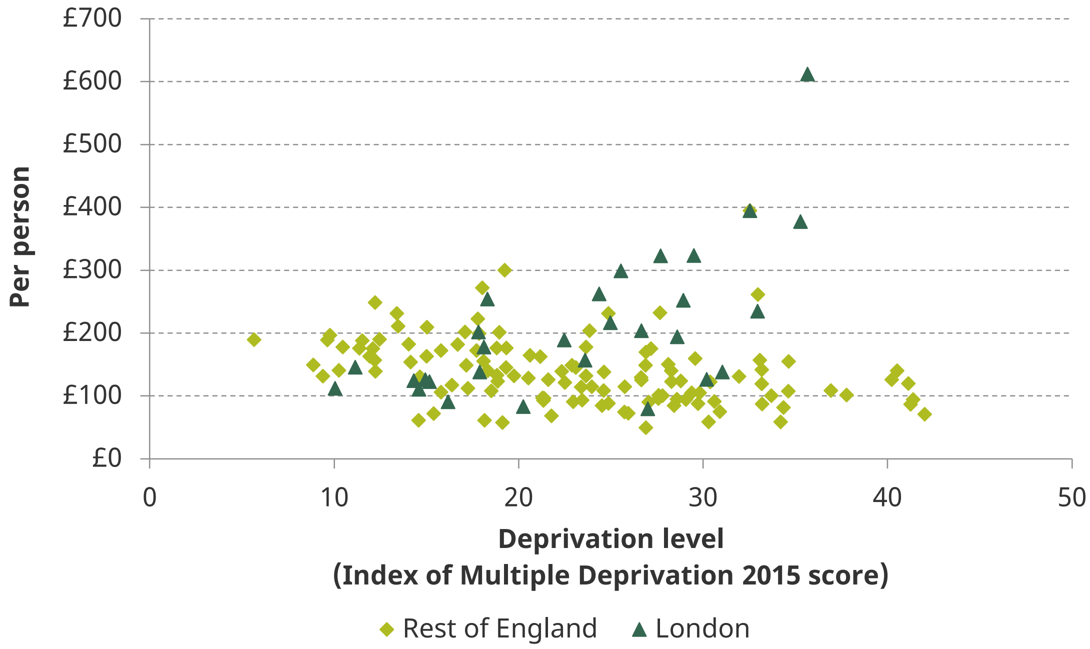
Figure 4.12. NHB receipts per person by population growth rate of upper-tier council area, 2011–12 to 2019–20 (cumulative)



Source: As for Figure 4.8.

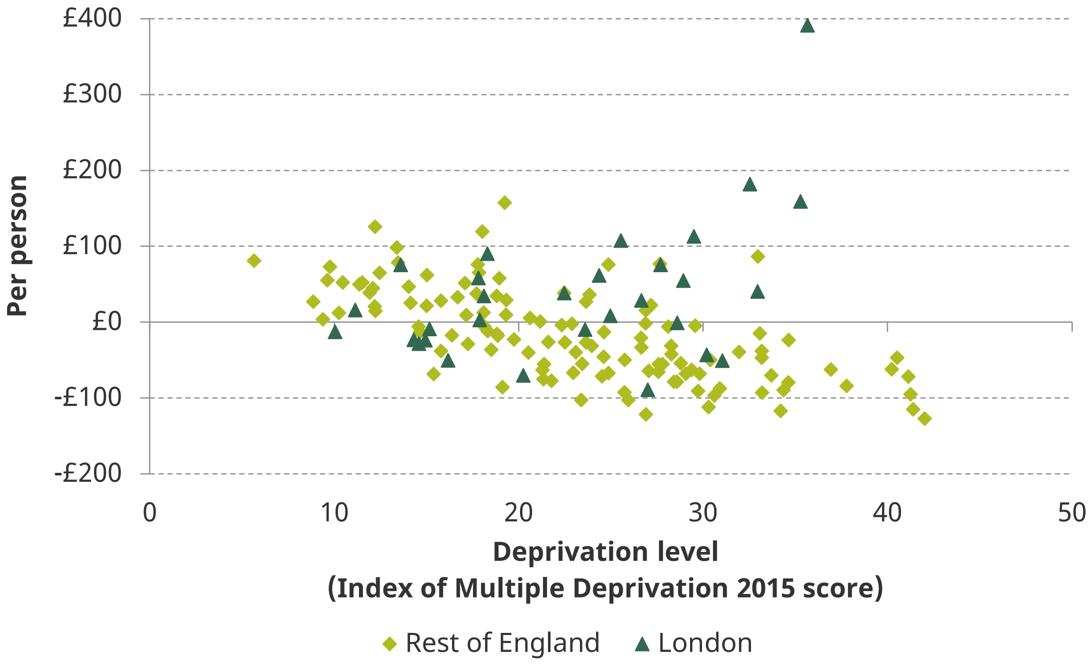
occupied, and more people may crowd into existing properties. Differences in payments per property based on the council tax band they are in also contribute to this pattern.

Figure 4.13. NHB receipts per person by deprivation level of upper-tier council area, 2011–12 to 2019–20 (cumulative)



Source: As for Figure 4.8, plus Department for Communities and Local Government (2015b).

Figure 4.14. Gain/loss per person from the NHB relative to allocating equivalent funding according to assessed spending needs, by deprivation level of upper-tier council area, 2011–12 to 2019–20 (cumulative)



Source: As for Figure 4.8, plus Department for Communities and Local Government (2015b) and local authority relative needs formulas (RNFs).

- Outside London, higher levels of deprivation are associated with lower NHB receipts – driven by lower payments per property built, and slower rates of housing development associated with slower population growth. Within London though, payments have been higher in the more deprived inner boroughs – especially to the east of the centre. This is driven by higher rates of housing development in these areas and is associated with high rates of population growth.

Given the variation in NHB receipts across areas with different levels of deprivation, it is unsurprising that, outside London, councils serving less deprived areas have received more funding under the NHB than they would have received under a needs-based allocation, but the reverse is true for councils with moderate and high levels of deprivation, as shown in Figure 4.14.

4.4 What evidence is there of an impact on councils' behaviour?

The direct impacts on funding that we have focused on in this chapter so far are not the ultimate purpose of the BRRS or NHB – they are incentive mechanisms designed to change councils' behaviour, with the ultimate aim of increasing economic growth and the supply of housing.

Prior to the introduction of the BRRS, for instance, the government predicted[60] that the policy would increase the stock of non-domestic property by 1.9 million square metres in its central scenario. This floor space was estimated to accommodate an additional 41,000 jobs by 2019–20, generating a cumulative £10.1 billion increase in gross value added (GVA), a measure of economic output, between 2013–14 and 2019–20. Recognising the significant uncertainty about how councils would respond and how this would translate into additional floor space, jobs and economic output, low and high response and productivity scenarios were also produced. These showed an increase in floor space of between 0.65 million and 2.51 million square metres; an increase in employment of between 14,000 and 54,000; and a cumulative increase in GVA of between £1.7 billion and £19.9 billion – a range spanning an order of magnitude. The government's consultation on the NHB[61] allowed for less uncertainty on impacts, predicting that that policy would increase the number of new houses completed each year by between 8% and 13% from 2016–17 onward (with increases building up over the preceding five years), with a net 140,000 additional houses over 10 years in its central scenario.

Are we in a position to say whether these predictions, however imprecise, have come to pass? Unfortunately not: with both policies rolled out across England, we can only observe what has happened to the stock of non-domestic property and housing with the policy in place, not what would otherwise have happened. Comparisons with Scotland and Wales risk conflating impacts with the very many other ways in which policies have differed between the different nations of the UK.

In principle, it would be possible to compare changes in behaviour (such as planning approval rates and times) and outcomes (e.g. construction of new homes and non-domestic floor space) in areas where the incentive effects of the policy would be expected

[60] Department for Communities and Local Government, 2012.

[61] Department for Communities and Local Government, 2010.

to be stronger and weaker – i.e. where the additional revenue retained or received would be greatest. But as it stands, available evidence is limited to surveys asking councils how they have responded – and this information has been collected for the NHB only.

What do councils say about the NHB?

The government published an evaluation of the New Homes Bonus in 2014 which included a survey of 202 senior planning officers about the effects of the NHB on councils' behaviour.[62] The survey found that whilst planning officials had a good understanding of the bonus and how it worked, they were less sure that it was having the intended impacts on attitudes and behaviours.

For example, while 39% agreed that the NHB was increasing support for new homes among councillors, 33% disagreed. Only 10% agreed that it was increasing support for new homes among the wider public, with 59% disagreeing – potentially reflecting the limited understanding most people have of local government funding arrangements.

31% of respondents agreed that 'the NHB has contributed to a more strategic and coordinated approach to new housing provision' with 43% disagreeing, and just 11% felt the NHB had been an 'important influence' in determining how much housing development to plan for as part of local plans. A plurality said they and councillors did not take account of NHB receipts when considering planning applications – with a number citing concerns that if they did it could be a breach of planning law.

The survey also revealed a wide range of uses for NHB receipts – although only 21% reported that activities and infrastructure to support new house-building were one of the top three uses of the revenue (the majority used it as general-purpose funding for a range of services).

Taken together, this suggests that as of 2014 when the evaluation was undertaken, the NHB may have been contributing to a more positive attitude to new housing among councillors and officials, but the impact on decision-making – both strategic and individual planning decisions – was more limited. Whether this remains the case is uncertain and, as with the BRRS, there is a need for a more systematic and quantitative analysis in advance of reforms to the system in 2021–22.

4.5 Summary

This chapter has looked at the impact of the BRRS and the NHB – the government's flagship programmes for financially incentivising councils to be more supportive of development in their areas – on councils in different parts of the country.

For the BRRS, while London has benefited the most from above-baseline growth in retained business rates revenues, and the North East has benefited the least, there is no simple divide in fortunes between the north and south, or between deprived and non-deprived parts of the country.

62 Department for Communities and Local Government, 2014.

For the NHB, on the other hand, there are clearer patterns, with councils in London and the south receiving significantly more than councils in the north, driven both by differences in the rate of housing development and by lower receipts per property in the north. Similarly, outside of London at least, more affluent areas have received significantly more than more deprived councils, again driven by differences in the rate of housing development in the north.

Perhaps the clearest pattern for both, though, is the difference in impacts between counties and districts in two-tier areas. By design, the policies allocate the bulk of above-baseline growth in business rates revenue and NHB payments to districts – in order to provide the strongest incentives to them, and to insulate counties and their social care responsibilities from volatility in business rates, Given districts' small budgets though, this leads to significant variation in how much they have received in these two sources as a fraction of their overall revenues – implying significant differences in the amount available to spend on services provided by districts. It also means that compared with the case where equivalent revenues had been allocated according to assessed spending needs, upper-tier counties have lost out. This is notable in the context of counties (alongside other councils with social care responsibilities) highlighting the most concern about the sustainability of their services and budgets.

As suggested by Amin-Smith, Phillips and Simpson (2018c), there is therefore a good reason to increase the share of business rates growth retained by upper-tier counties. This would allow them to share in more of any growth, and would spread any differences in growth rates across the country across their bigger budgets – rather than districts' small budgets. Consideration could also be given to allocating more of the NHB to counties too.

Doing this would, of course, shift the financial incentives for development from districts to counties. Whether this would be desirable or not depends on just how powerful those incentives are, and in whose hands they are most powerful. Unfortunately, we know very little about the impact of these schemes on councils' behaviour or resulting economic outcomes – such as the supply of property and growth in employment and economic output. Estimating such impacts is challenging given that these schemes were rolled out across England. But lessons may be able to be drawn from experience in areas where the financial incentives would be expected to be stronger and weaker: this is something that we will explore in research next year.

It is also the case that districts have come to increasingly rely on the BRRS and the NHB for their revenues. We estimate that in 2019–20, the typical district will retain above-baseline growth in business rates equivalent to 7.4% of its fiscal revenue and NHB payments equivalent to over 8% of fiscal revenues. And some districts are much more reliant on them than that. Our estimates suggest NHB payments will make up around 28% of Cambridge's fiscal revenues in 2019–20, with above-baseline business rates growth contributing another 16%. More generally, we estimate that there are 24 district councils that rely on the NHB for more than 15% of their fiscal revenue and rely on above-baseline business rates growth for more than 10%. This will need to be borne in mind when phasing in the planned reset of the BRRS in 2021–22 when councils move to 75% retention in particular.

5. Conclusion

This report has provided an up-to-date assessment of how councils' revenues and spending have changed across the country and across service areas since 2009–10, how different councils have fared under two flagship policies aimed at incentivising development – the Business Rates Retention Scheme and the New Homes Bonus – and what the outlook for funding is.

The detail can be found in Chapters 2–4, but it is worth reflecting on some of the key findings, as these have implications for the future of English local government.

First, nearly a decade of funding cuts means that councils' budgets are increasingly focused on social care and services needed to meet statutory duties – and in a growing number of cases, little else. Social care services together account for 57% of planned service spending this year, and if you add in public health too that reaches 64%. And within services that have seen big cuts overall, spending aimed at meeting statutory duties has grown. For example, spending on homelessness is up a dramatic 72% per person, and the fraction of highways and transport spending going to concessionary bus fares has risen from 15% to 25%.

This matters because it means a growing share of council spending goes on a smaller share of the population – which may affect the willingness of local taxpayers to see increased tax bills to fund rising costs and demands. And the big cuts made to more discretionary services already mean it may be harder to make any further cuts required in future and still deliver statutory duties. Over the last 10 years, it has already been the case that councils having to make bigger cuts have delivered much of these via larger cuts to spending on social care services.

Second, because of the way cuts to grants were made between 2009–10 and 2015–16, more deprived council areas have faced larger cuts than more affluent ones. This is, by now, well known. But it could end up having significant implications for the ongoing Fair Funding Review and the new spending needs assessments the Review will deliver.

Spending per person in the most deprived council areas is still 1.3 times the level in the least deprived. But this is down from 1.6 times in 2009–10. Without defining what we expect from councils in terms of service range and quality, a robust way of estimating how much different councils need to meet these expectations, and a subjective judgement on how much redistribution is appropriate, we cannot say whether the new or old funding and spending relativities are more appropriate though.

And this pattern of cuts makes carrying out a spending needs assessment harder for many council services (although more robust methods are used for social care services). If spending needs assessments are based on post-cuts patterns, they will give a lower weight to deprivation than if they are based on pre-cuts spending patterns. But that just reflects the fact that funding cuts in the meantime have fallen more heavily on more deprived areas.

This means the next government will have to make an inherently subjective decision about whether current relative funding levels for different councils are broadly fair – or whether to reverse some of the changes in spending patterns that have taken place over the last decade.

Third is councils' increasing reliance on local tax revenues for their funding. Council tax now accounts for almost half, up from just over a third in 2009–10, if we adjust for the fact that the government used to pay many low-income households' tax bills via council tax benefit. Around 30% comes from retained business rates, up from nothing a decade ago.

This matters a lot for the future because different councils can raise very different amounts from council tax. For example, in the most deprived tenth of council areas, forecast council tax revenues are £336 per resident this year, compared with £599 in the least deprived tenth of council areas.

This means if increases in council tax are meant to pick up much of the burden of the rising demands for and costs of service provision, deprived areas could find themselves losing out again. The government could avoid this by building assumed council tax increases into its calculation of 'tariffs' and 'top-ups', and any grant funding it provides to councils. That is what is done in Wales, for instance, but it can be controversial.

More generally, the next government has to decide the extent to which it prioritises providing financial incentives by allowing councils to retain more local revenue growth for longer, versus prioritising allocating funding in line with assessed needs by redistributing that growth. This will have implications for the decisions flowing from the Fair Funding Review, the design of the 75% BRRS, and how best to provide any additional funding to local government.

Fourth, it is highly likely councils will need a growing pot of money on top of the council tax and business rates revenues they will receive in future. Just how much will depend partly on how much council tax is increased by. But it will also be driven by how councils' productivity – i.e. the volume of output they can deliver for a given volume of inputs – evolves over time. The labour-intensive nature of services such as social care makes it hard to improve productivity without compromising on (at least perceived) quality. But if the productivity performance of the sector can be further improved – and it has already improved as councils have adapted to funding cuts – the outlook for funding would be less challenging.

The review and analysis undertaken for this report also raise several important questions where better evidence is needed.

For instance, while most councils have relatively protected social care services and cut back other service areas, the scale of protection and the distribution of cuts across services do often differ significantly. What factors are driving these decisions and what are their impacts on service delivery? We plan to look in more detail at these issues in next year's annual report.

We also know very little about the impact of the BRRS and NHB on the behaviour of councils and on economic outcomes. Analysing this is tricky given both schemes cover the whole of England, so there are no natural 'treatment' and 'control' groups for analysis. However, with both policies currently under review and reforms planned for 2021–22, this is an issue we plan to investigate in the first half of 2020.

Appendix A. Methodology

Responsibility for local government services is devolved to Wales, Scotland and Northern Ireland. This report is about local government service spending in England.

Our analysis is based on the revenue and spending reported by councils in MHCLG's local government revenue expenditure and financing statistics; however, we make adjustments to ensure that our revenue and spending measures are consistent over time.

We include revenue and spending by councils, the Greater London Authority, combined authorities, and waste and transport authorities (we do not include spending by police, fire or national park authorities).

When looking at revenues, we exclude those specifically for education, national park, police, and fire and rescue services. Likewise, we exclude spending on these service areas. We do this because responsibilities for these services vary across councils. For example, the free schools and academies programmes mean many schools are now funded directly by central government – but the proportion varies by council. And while in some areas councils have responsibility for fire services, in other areas they are handled by separate fire authorities. When looking at changes in revenue and spending over time, we also exclude spending on public health, which was devolved to local government between 2013–14 and 2015–16.

Our main spending measures are based on net service expenditure – which is funded out of councils' general revenue fund, which includes revenues from council tax, retained business rates and most grant funding. It excludes spending on debt servicing and capital investment. It also excludes income from sales, fees and charges (SFCs), but we look at this income separately and construct a broader measure of spending which includes this income.

For constructing consistent measures of revenue and spending over time, there are two important sources of funding that we 'add back in'.

First, in 2009–10 and 2010–11 we add in spending on the 'Valuing People Now' programme (which later became the Learning Disability and Health Reform Grant) to reflect the transfer of responsibilities from the NHS to councils. Our source for these data lists expenditure on this programme in 2010–11;[63] we assume that real-terms expenditures were the same in each local authority area in 2009–10 as in 2010–11.

Second, in subsequent years we add in transfers from the NHS. Up to and including 2014–15, we know the total value of these transfers that accrued to local authorities. However, from 2015–16, these transfers became the 'Better Care Fund'. Total Better Care Fund allocations for 2015–16 and 2016–17 are taken from the Supporting Information to the local government finance settlements, while allocations from 2017–18 to 2019–20 are scaled up each year in line with the increase in overall funding for the Better Care Fund. The share of this total allocation going to social care is based on national-level analysis by the NHS, which implies that just over half (£1.81 billion in cash terms) of the NHS's

[63] See the government response to the consultation on this funding shift (Department of Health, 2010).

compulsory contributions to the Better Care Fund (£3.46 billion) supported social care activities in 2015–16. In our local-level calculations, we assume that the share is the same across the country. It is important to note that our figures do not cover spending on social care services that are directly commissioned by the NHS (such as district nursing and spending on the 'continuing healthcare' programme).

For the council-level analysis, our figures are reported at the 'hypothetical upper tier' level. This means that in areas where local government services are split between county and district authorities, we pool expenditures at the county level; and in areas where there is a combined authority (like the Greater London Authority), we distribute its spending to the constituent councils (based either on the levies paid by councils to combined authorities for the services they provide, or on population shares, as applicable). This ensures that 'councils' in our analysis are responsible for a consistent set of services. We drop Isles of Scilly and City of London from the council-level analysis due to missing data and their very particular circumstances.

Appendix B. Changes to councils' revenue and spending in Scotland

David Eiser, Tom Harris and David Phillips

Cuts to local government budgets in Scotland over the past decade were notably smaller than those faced by English councils.

Table B.1 highlights this by showing how the different components of fiscal revenues for Scottish councils changed over the past decade. We see that central grant funding per person (which includes redistributed non-domestic rates and specific grants) is budgeted to have declined by 12% per person since 2009–10 – even more rapidly than the Scottish Government's own revenue budget.[64,65] Over the same period, council tax revenues per person are budgeted to have fallen 12% too, driven by two factors: the localisation of council tax benefit (replaced with grant funding) and a cash-terms freeze in council tax rates between 2008–09 and 2016–17. Taken together, this means that the overall fiscal revenues of Scottish councils fell by 12%.

These figures are not directly comparable to those reported for England in the main body of the report, as we exclude grants allocated for education services in England. This cannot be done for Scotland as funding for education is mostly provided through the general local government finance settlement, rather than in the form of separate or ring-fenced grants. But to make figures more comparable, we can subtract education spending from fiscal revenues. Doing this, we find that revenues for other services are budgeted to

Table B.1. Council revenues by source (2019–20 £ per person)

Revenue source	2009–10	2015–16	2018–19	2019–20	Change, 2009–10 to 2019–20
Central grant funding	2,086	1,996	1,792	1,839	−12%
Council tax	514	409	443	450	−12%
Fiscal revenues incl. education	**2,600**	**2,406**	**2,235**	**2,289**	**−12%**
Net spending on education	1,086	965	980	1,016	−6%
Fiscal revenues excl. education	**1,514**	**1,441**	**1,255**	**1,273**	**−16%**

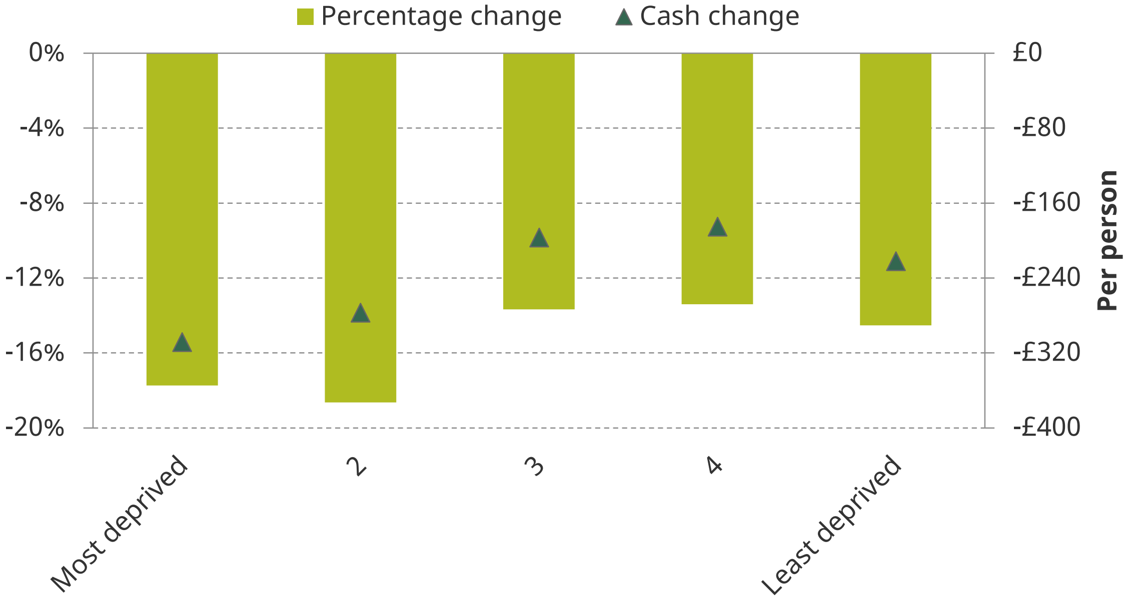
Note: Values for 2019–20 are based on local authority *budgets*, as out-turns for 2019–20 are not yet available.

Source: Authors' calculations using Local Government Revenue Estimates and Financing (Scottish Government, various years).

64 Local authorities in Scotland were responsible for delivering police and fire services until 2013–14. From 2013–14 onwards, police and fire services were delivered by newly established Scotland-wide agencies. As a result, local authorities ceased to receive grant funding for police and fire from 2013–14. In order to control for this, spending on police and fire services is deducted from estimates of revenue in years prior to 2013–14. While it might be preferable to exclude the grant revenue that local authorities actually received to deliver these services, this is not possible due to complexities in the way that grant allocations are calculated.

65 This is also shown in Burn-Murdoch and Aiton (2019).

Figure B.1. Change in fiscal revenues (excluding education spending) for Scottish councils between 2009–10 and 2019–20 (2019–20 £ per person and %), by quintile of deprivation



Note: Values for 2019–20 are based on local authority *budgets*, as out-turns for 2019–20 are not yet available. Councils are ranked according to deprivation – measured using average Index of Multiple Deprivation scores (2015).

Source: Authors' calculations using Local Government Revenue Estimates and Financing (Scottish Government, various years).

have fallen by 16% per person between 2009–10 and 2019–20 – an 8 percentage point smaller fall than faced by English councils. As shown in Table B.2 below, spending by Scottish councils on non-education services fell by 15% per person – again 8 percentage points less than the spending cuts faced by English councils.

We also find that the pattern of cuts across different councils in Scotland was not nearly as regressive as in England. This is shown in Figure B.1, which ranks councils according to deprivation and shows how changes in overall fiscal revenues (excluding those for education) are budgeted to have differed between more and less deprived councils between 2009–10 and 2019–20. It shows that the least deprived fifth of councils faced cuts of 15% per person on average, while those in the most deprived councils faced cuts of nearly 18% per person on average – only 3 percentage points higher. This compares with a difference of 13 percentage points in England between the per-person cuts to revenues in the most and least deprived fifth of councils.

However, Scottish councils have made similar decisions to English councils regarding which services to protect and which to cut, as shown in Table B.2. We see that, as in England, councils in Scotland relatively protected spending on social care services, while making larger cuts to more discretionary areas of spending such as planning and development, roads and transport, and cultural services. In fact, while per-person spending on social care services is budgeted to be only 3% lower in 2019–20 than it was in 2009–10, transport services and planning and development services demonstrate declines of 43% and 46%, respectively. Education services also appear to have been relatively protected over the period.

Table B.2. Local authority net spending per person in Scotland by service (2019–20 £ per person)

Service	2009–10	2015–16	2018–19	2019–20	Change, 2009–10 to 2019–20
Social care services	643	640	625	624	−3%
Other services	874	810	702	669	−23%
Transport	120	90	75	69	−43%
Env. & reg.	153	139	133	128	−17%
Planning	75	59	42	40	−46%
Culture	146	120	103	101	−31%
Other	380	402	349	331	−13%
Net service spending excl. education	**1,517**	**1,450**	**1,327**	**1,293**	**−15%**
Education services	1,086	965	980	1,016	−6%
Net service spending incl. education	**2,603**	**2,415**	**2,307**	**2,309**	**−11%**

Note: Values for 2019–20 are based on local authority *budgets*, as out-turns for 2019–20 are not yet available. ‘Other’ spending includes spending on housing services, central services (such as council tax administration and corporate services), and interest repayments and repayments associated with PFI/PPP schemes.

Source: Authors’ calculations using Local Government Revenue Estimates and Financing (Scottish Government, various years).

Appendix C. Regression output

Table C.1. OLS regression of changes in net spending per person on adult social care on changes in fiscal revenues per person, 2009–10 to 2019–20

	(1) % change in net spending on ASC	(2) % change in net spending on ASC	(3) % change in net spending on ASC	(4) % change in net spending on ASC
Percentage change in fiscal revenue	0.775 *** (0.102)	0.508 *** (0.134)	0.371 * (0.169)	0.380 ** (0.172)
London indicator	–	–8.701 ** (2.892)	–10.388 *** (3.168)	–11.237 ** (3.275)
London indicator included	No	Yes	Yes	Yes
Two-tier indicator included	No	No	No	Yes
Other controls	No	No	Yes	Yes

Note: As for Figure 2.5. City of London and Isles of Scilly excluded. 'Other controls' include average Index of Multiple Deprivation (2015) and initial spending levels (indexed, with national average equal to 100). Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Source: Authors' calculations using Ministry of Housing, Communities and Local Government (2015 and 2019e) and Office for National Statistics (2019a and 2019b).

Table C.2. OLS regression of changes in net spending per person on planning and development on changes in fiscal revenues per person, 2009–10 to 2019–20

	(1) % change in net spending on planning	(2) % change in net spending on planning	(3) % change in net spending on planning	(4) % change in net spending on planning
Percentage change in fiscal revenue	1.017 *** (0.409)	1.917 *** (0.462)	2.668 *** (0.548)	2.671 *** (0.549)
London indicator	–	29.311 ** (9.994)	36.377 *** (8.436)	36.034 *** (8.729)
London indicator included	No	Yes	Yes	Yes
Two-tier indicator included	No	No	No	Yes
Other controls	No	No	Yes	Yes

Note: As for Table C.1.

Source: As for Table C.1.

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