

## 6. Local government spending: where is the axe falling?

Rowena Crawford and David Phillips (IFS)<sup>1</sup>

### Summary

- Local government spending varies significantly across England. Excluding education, local government expenditure per person in London in 2009–10 (£1,868) was much higher than that in the rest of the country, and almost double that in the South East of England (£976), the region with the lowest spending. Higher spending on transport and police in London explains a large part of this difference. More generally, spending is higher in poorer, more urban districts and lower in more affluent, rural and suburban districts.
- Local authority budgets for 2011–12 imply real-terms cuts in net current service expenditure (excluding education) of 9.4% since 2009–10, or 10.4% when expenditure on fire and police services is also excluded. This reflects both cuts in the amount provided by central government grants (13.3% in real terms) and reductions in the forecast revenue raised by the council tax (2.1% in real terms).
- The size of the cuts varies significantly across local authority areas. Planned cuts (excluding education, fire and police services) between 2009–10 and 2011–12 exceed 15% in around one-quarter of local authority areas, whilst in another quarter they are smaller than 6% (or spending is even set to increase). Increases in real-terms expenditure are planned in around one-tenth of local authority areas.
- The planned cuts are largest in both absolute and percentage terms in areas with higher expenditure in 2009–10. Amongst councils in the top quarter of spenders in 2009–10, the cuts average 16.8%, versus 5.5% amongst those in the bottom quarter of spenders. This means spending cuts are larger, absolutely and proportionally, in urban and poorer parts of England than in more affluent rural and suburban districts. It also means cuts are larger in London and the northern regions of England than in southern regions.
- The size of cuts varies significantly across service areas. Expenditure on planning and development services is hardest hit, with an average cut across England of 43% over the two years since 2009–10. Expenditure on this area, and on libraries and other culture and leisure, is set to be lower in real terms in 2011–12 than in 2001–02. Expenditure on police services, fire services and social services is relatively protected, and expenditure on environmental and refuse services is set to increase (by 1.7%). There is no clear pattern of whether services that previously saw the biggest increases in expenditure are now seeing the biggest cuts or vice versa.

---

<sup>1</sup> We would like to thank Alissa Goodman and the editors for their helpful comments and suggestions. We also appreciate help and advice from staff at the Chartered Institute of Public Finance and Accountancy (CIPFA), in particular Chris Greene, Alison Scott and Sue Wren.

## 6.1 Introduction

The 2010 Spending Review set out deep cuts to the grants that central government provides to local governments in England for the four years 2011–12 to 2014–15: for example, funding to local government from the Department for Communities and Local Government (DCLG) was planned to be cut by 27.4% in real terms over this period.<sup>2</sup> The devolved administrations in Scotland, Wales and Northern Ireland have also announced cuts in grants to local government, although these vary in size (for instance, in Wales, the decision not to ‘protect’ the NHS from cuts has meant smaller cuts are required in other areas, such as local government).

While the majority of local government spending is funded using grants from central government, local authorities also raise revenue from council tax, user fees and charges, and other independent sources of income. These other sources of income also look set to be under pressure. In particular, the government has acted twice to make it less attractive to local authorities to raise council tax levels. First, it announced in June 2010 that any council deciding to increase the rate of council tax in 2011–12 would receive less grant funding (to the tune of 2.5% of their council tax revenues) in each year from 2011–12 to 2014–15 than it would have done had it not increased council tax (for example, if it had frozen council tax rates at their 2010–11 level). This would mean that, for instance, a council tax increase of 2.5% would have led to an equal-sized fall in grants, leaving the local authority with no additional net revenue. Then, in the 2011 Autumn Statement, the government announced that it would provide funding to encourage councils to freeze their council tax in cash terms for a further year in 2012–13. However, unlike the funding announced in the June 2010 Budget, which was available for all four years of the Spending Review period 2011–12 to 2014–15, the extra funding provided in the Autumn Statement is only for one year. Local authorities that choose to freeze their council tax rates in 2012–13 will therefore have lower incomes than they previously planned for the years after 2012–13, unless they choose (and are allowed) to implement a larger subsequent increase in council tax to compensate.

Using data from DCLG and the Chartered Institute of Public Finance and Accountancy (CIPFA), this chapter analyses how councils in England have chosen to distribute the cuts to their spending across the various services they provide during the first two years of fiscal retrenchment – 2010–11 and the current financial year, 2011–12.<sup>3</sup> We place these cuts in the context of what local government was spending in 2009–10 and how this had changed since 2001–02.

The rest of this chapter proceeds as follows. Section 6.2 sets out how much local government in England was spending in 2009–10 and on what. Section 6.3 uses spending out-turn data for 2010–11 and planned budgets for 2011–12 to analyse the cuts: what areas of local government spending are being cut, and how this and the size of the cuts vary across the country. Section 6.4 puts these cuts in context by looking at how local government spending has been changing over the past decade and how this compares with the changes in overall government spending on services. Section 6.5 concludes.

---

<sup>2</sup> The local government component of the DCLG budget includes Revenue Support Grant, redistributed national non-domestic rates revenue, and related grants to local authorities in England that support services that are typically the overall responsibility of other government departments (such as police and social services).

<sup>3</sup> Comparable data are available only for England from CIPFA and DCLG. For this reason, our analysis necessarily excludes local government spending in Scotland, Wales and Northern Ireland.

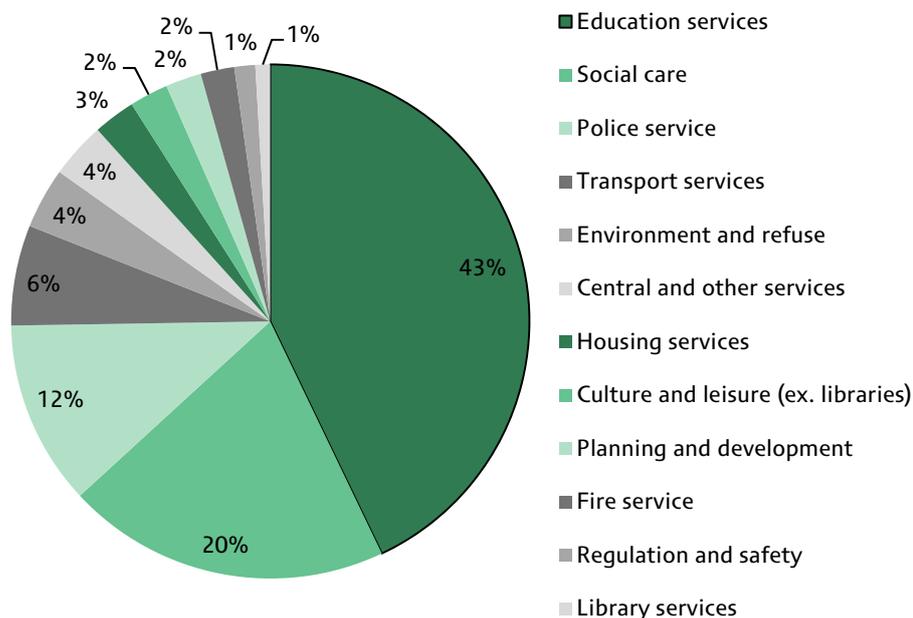
## 6.2 Spending by local government in 2009–10

Local government is responsible for ensuring the provision of a wide range of services, either directly or indirectly by commissioning the service from providers in the private or not-for-profit sectors. The main services provided are education, transport, social care and housing. Local government is also responsible for cultural services, environmental services, planning and development services, and regulatory and protective services.

Total net current spending on services in England amounted to £103.6 billion in 2009–10 (the last year prior to the current round of spending cuts), equivalent to £1,984 per person.<sup>4</sup> Net current service spending is the overall level of spending on a given service *net* of any income from providing that service – in other words, it captures the amount spent by local government on local services, over and above that funded by other income streams such as user charges directly related to providing the service (for example, fees to use leisure centres or for ‘meals on wheels’).

As shown in Figure 6.1, net current spending on education was the largest single component of local government expenditure in England in 2009–10, accounting for £44.5 billion, or 43% of total expenditure. This was followed by spending on social care (£21.0 billion or 20%) and on the police (£12.0 billion or 12%). Between them, these three areas accounted for three-quarters of local government net current service spending in England.

Figure 6.1. Local government net current service spending in England, 2009–10



Notes: Net current service spending is the overall level of spending on a service net of any income from providing that service. ‘Central and other services’ includes corporate and democratic management and non-distributed costs.

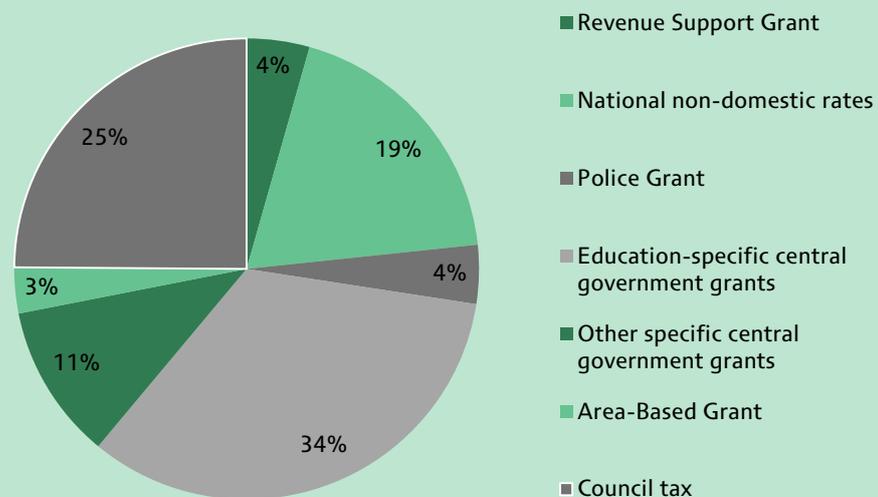
Source: Local government expenditure out-turns, 2009–10, available at <http://www.communities.gov.uk>.

<sup>4</sup> This figure (like all others relating to spending per person in this chapter) is calculated using mid-2010 population estimates from the Office for National Statistics website.

Box 6.1. The structure of local government funding in England

When discussing local government funding, the measure of expenditure used in official statistics is ‘revenue expenditure’. This is different from the ‘net current service expenditure’ definition used in this chapter: revenue expenditure consists of net current service expenditure plus other elements of current spending (such as payments of Housing Benefit and Council Tax Benefit) and certain capital charges, offset by certain specific grants (the largest being to fund Housing Benefit and Council Tax Benefit) and excluding interest receipts. Figure 6.2 shows the contribution of each source of funding to total revenue expenditure in England in 2009–10. The majority (three-quarters) comes in the form of grants from central government, with just one-quarter coming from council tax.

Figure 6.2. Financing of revenue expenditure, 2009–10



Note: ‘Other specific central government grants’ includes expenditure on Sure Start and early years provision. Source: Local government expenditure out-turns, 2009–10, available at <http://www.communities.gov.uk>.

What is known as the ‘Formula Grant’ – comprising Revenue Support Grant, income from redistributed non-domestic rates (also known as business rates) and (for relevant local authorities) the Police Grant – contributed, on average, 27% of the financing required for revenue expenditure. This income is not, in principle, earmarked for a specific use by central government, and local authorities can choose how to distribute this money between different spending priorities. However, Formula Grant allocated to single-purpose authorities such as police authorities (which includes all of the Police Grant) is in effect ring-fenced for the single service they provide.

Nearly 45% of expenditure, on average, was financed through specific and special grants from central government. The majority of these, making up 34% of total funding, were grants ring-fenced specifically for schools (including the largest specific grant, the Dedicated Schools Grant (DSG), which amounted to £29.7 billion across all English local authorities in 2009–10). Whilst the names of the other specific and special grants indicate that central government wanted local government to spend resources in a particular area, many were not actually ring-fenced (meaning local councils could choose to spend them on different things). A further 3% of revenue expenditure was financed through Area-Based Grant, leaving, on average, 25% to be financed through council tax in 2009–10.

The Formula Grant is administered by the DCLG and is determined using four factors: a central allocation (which is the same for all local authorities that deliver the same services), a needs assessment (which is intended to reflect the different costs of providing the same services in different areas), a resource element (which subtracts the income that a local authority is assumed to be able to raise from council tax given its tax base) and finally a component that ensures that all local authorities get a minimum grant increase. The intended impact of deriving the Formula Grant in this way is that it will redistribute from local authorities that have high tax-raising ability relative to their funding needs to local authorities that have lower tax-raising ability relative to their needs. It also means that the extent to which spending is funded by grants versus council tax varies significantly across the country: for instance, council tax funded 33.1% of revenue expenditure in the South East of England, but only 17.5% in London, in 2009–10.

As discussed above, local government net expenditure is funded through a number of different sources, including council tax, and general grants and specific grants from central government. Box 6.1 provides more detail on the relative importance of these sources of funding and on how the amount of support through grants is determined.

As highlighted in Box 6.1, most grants by central government for schools and other education spending are ring-fenced. This means that the amount spent on these services is largely out of the control of local government, although it can be topped up with non-ring-fenced funding if desired. Furthermore, in recent years, significant expenditure on schools has been shifted from going via local government to being paid directly from central government to schools. This reflects the growth of the Academies Programme, where schools are given significant operational freedoms and are funded directly, which has accelerated since the coalition government came to power. With the number of academies varying significantly across local authorities and increasing substantially in recent years, differences in local authority spending on education in different parts of the country and over time may not reflect real differences in the amount spent on education, but instead differences in who is responsible for such spending.<sup>5</sup> For this reason, we exclude education from subsequent analysis, where we turn to look at variation in local government spending in different parts of England and at changes in spending over time.<sup>6</sup>

Figure 6.3 shows how net current service spending per capita for each of the main service areas (excluding education) differs between each of the regions of England. The region with the highest level of spending per person was London, which had a higher level of spending for each service than the English average. Expenditure was especially high for transport (£358 versus an English average of £125) and police (£450 versus an average of £230). Higher spending on transport reflects, to a significant extent, the high costs associated with subsidising Transport for London's (TfL's) public transport networks,

---

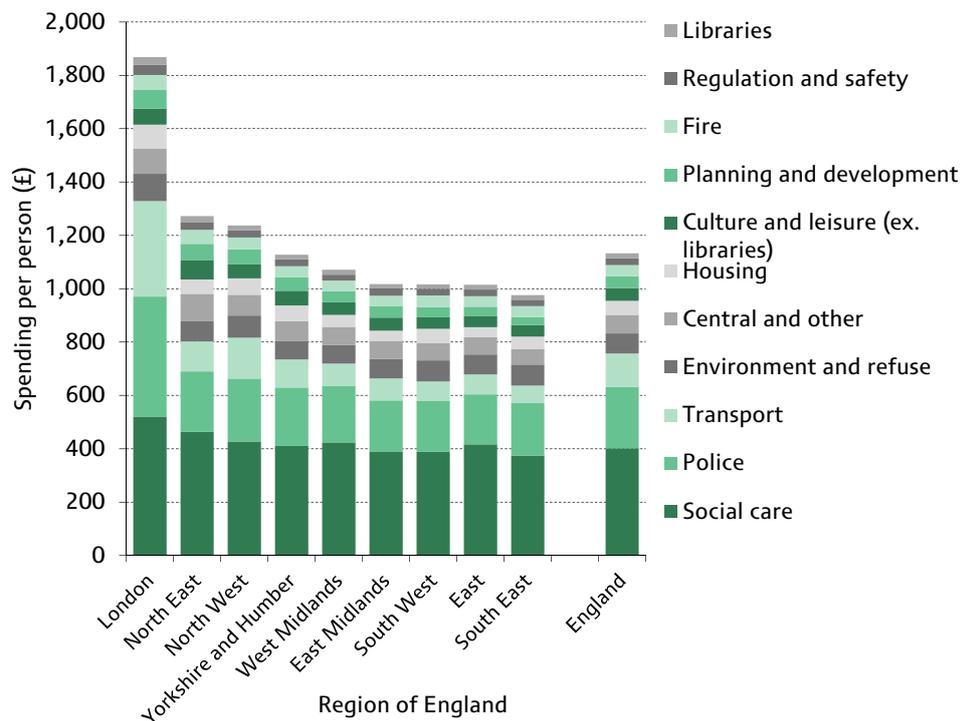
<sup>5</sup> For instance, in 2009–10, local government spending on education, excluding the very small local authorities covering the Isles of Scilly and the City of London, varied from £592 per person in the London Borough of Westminster (and was under £700 per person in seven other local authorities) to £1,515 per person in the London Borough of Newham (and was over £1,200 per person in seven other authorities). However, because the organisation of education may differ significantly across areas (e.g. of Westminster's 10 secondary schools, four were academies in 2009–10, whilst none of Newham's 16 secondary schools was), this variation may not accurately reflect the true variation in spending on schools across local authorities.

<sup>6</sup> Trends in education and schools spending over time, including forecasts up to 2014–15, can be found in H. Chowdry and L. Sibieta, 'Trends in education and schools spending', IFS Briefing Note 121, 2011 (<http://www.ifs.org.uk/publications/5732>).

while high costs for policing may reflect the urban and, in many areas, relatively deprived nature of London, as well as the Metropolitan Police’s significant national responsibilities (such as coordinating anti-terrorism efforts).

Outside of London, local government spending (excluding education) is highest in the North East of England, a relatively poor part of the country, and lowest in the South East, a relatively affluent part. Spending in the North East is at or above the English average for all services, apart from transport services and police services (where the especially high spending in London skews the national picture) and environmental and refuse services (where the difference is just £1 per person). Spending in the South East is at or below the national average for every service except environmental and refuse services.

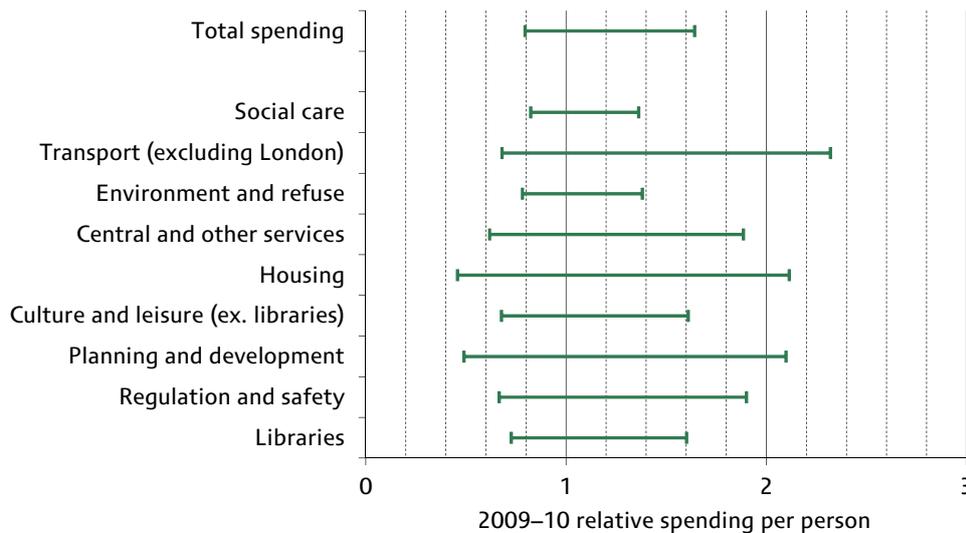
Figure 6.3. Spending per person by local government across the regions of England, 2009–10



Source: Local government expenditure out-turns, 2009–10, available at <http://www.communities.gov.uk>.

Of course, decisions on local government spending are made at the local authority level as opposed to the regional level. Figure 6.4 shows how varied local government spending per person is for each service and overall (excluding education, fire and police) across the unitary authorities, metropolitan districts, London boroughs and shire counties of England. Spending on police and fire services is excluded because these services are not provided by local councils but by single-purpose authorities that do not geographically align with the level of local government used for the other spending categories. So that spending on each service can be shown in one graph, the median level of spending (i.e. the level of spending in the ‘middle’ local authority, where 50% of authorities are spending more than that authority and 50% are spending less) is normalised to 1 for each service. The green lines then show the range of spending of the middle 80% of local authorities (in other words, 10% of local authorities are spending an amount relative to the median that is less than the left-hand end of the line and 10% of local authorities are spending more than the right-hand end of the line).

Figure 6.4. The distribution of local government spending, 2009–10



Notes: Total spending is net current service spending excluding education, police and fire services, and national parks. ‘Central and other services’ includes expenditure on corporate and democratic management and other non-distributed costs. Expenditure in two-tier areas is aggregated to the upper (shire county) level. Expenditure by single-function authorities (except police and fire) in metropolitan areas is allocated to metropolitan districts based on their contributions to the authority’s budget (called levies), with remaining expenditure (or surplus) allocated to districts based on population. Expenditure by the Greater London Authority (except police and fire) – which is predominantly spending by Transport for London – is allocated to London boroughs based on population. The set of local authorities included is therefore shire counties (27), unitary authorities (56), metropolitan districts (36) and London boroughs (33). The green lines show the range of spending of the middle 80% of local authorities.

Source: Local government expenditure out-turns, 2009–10, available at <http://www.communities.gov.uk>.

The median level of total net current service spending (excluding education, fire and police) in England in 2009–10 was £832 per person. One-tenth of local authorities had spending of less than 80% of this amount (£661 per person) and a further tenth of local authorities had spending of more than 64% above the median (£1,365 per person). Overall spending is highest in London (especially the inner boroughs) and urban areas in the North of England (such as Manchester, Liverpool and Newcastle). It is lowest in shire counties or unitary authorities covering more rural or suburban areas (such as Leicestershire, Windsor and Maidenhead, and Hampshire).

Spending varies the most, relative to the median, for transport, housing, and planning and development. London boroughs are excluded from the distribution of transport spending in Figure 6.4 because, as discussed above, transport spending in London is nearly three times the English average level of transport spending per head. However, even outside London, the distribution of transport spending is very varied: the highest-spending tenth of councils outside of London spend more than twice the median spending level. This is driven by other large urban areas such as Greater Manchester. Spending on housing and on planning and development are also both more than twice the median in the highest-spending tenth of councils: London boroughs and other urban areas are over-represented in this high-spending group. Spending on environmental and refuse services and on social care vary relatively much less across individual local authorities.

## 6.3 Where have the cuts fallen since 2009–10?

### Cuts to overall spending

The two years since 2009–10 have seen downward pressure on local government budgets from both real cuts in central government grants and real falls in council tax revenues. These are discussed in turn below, before considering the aggregate effect on net current service spending.

#### *The allocation of cuts to grants*

Although the Formula Grant was increased from £28.3 billion in 2009–10 to £29.4 billion in 2011–12 (a cash increase, but a real-terms cut of 1.2% once economy-wide inflation is taken into account), this reflects the fact that a number of specific grants and funding streams previously paid through Area-Based Grant have been rolled into the Formula Grant in 2011–12. Taken together, grants from central government (excluding those specifically for education) were cut by 13.3% in real terms between 2009–10 and 2011–12.

The way the Formula Grant has been allocated means that the cuts faced vary across individual local authorities. As discussed in Box 6.1, certain local authorities (with high expenditure requirements, low council tax bases or both) rely on grants for a larger proportion of their overall budget. If the same proportional cut in central government grants had been applied to all local authorities, the total spending power (grants plus council tax revenues) of those authorities most reliant on grants would have been reduced much more than that of the authorities least reliant on grants. To reduce the extent to which this has happened, the government has grouped authorities into bands based on the proportion of their income that comes from Formula Grant, and the maximum percentage cut in grants that an authority may face has been made smaller for those more reliant on grants than for those less reliant on grants (this process is called ‘floor damping’). In addition, the government has set up a transition grant for 2011–12 and 2012–13, which will be used to ensure that no local authority will see a reduction in overall spending power (which is, broadly, the sum of council tax, government grants, and NHS spending for social care) of more than 8.8% – in nominal terms – in either year.

Despite these measures, it is still the case that the cuts in grants between 2009–10 and 2011–12 have generally meant that, across England, high-spending local authorities, which are typically relatively grant dependent, have seen larger cuts to their overall spending power than lower-spending authorities, and have therefore had to make larger spending cuts (both in absolute and in percentage terms).

Alongside the reduction in the size of grants, there has been a reduction in the targeting by central government of grants on specific functions. In the 2010 Spending Review, the government announced the ending of ring-fencing for most grants (the most notable exception being for the dedicated school grants) and the abolition of a large number of separate grants (where spending is earmarked for a particular purpose even if it is not ring-fenced), with the funding previously going to these being rolled into the Formula Grant. Together, these changes (the largest of which was the removal of the ring-fence around funding for Sure Start and other early years provision) have led to some increase in local authority discretion about how to allocate spending (and spending cuts) across services.

### Changes in council tax revenues

In the June 2010 Budget, the government announced that grant funding on top of the Formula Grant (equivalent to 2.5% of council tax revenues in 2010–11) would be made available for the four years from 2011–12 to 2014–15 if local authorities froze their council tax rates in nominal terms in 2011–12. This offer was taken up by all local authorities, and indeed 43 authorities actually chose to reduce their council tax rates in nominal terms (for which they got the same grant from central government as they would have done if they had frozen their council tax rates).

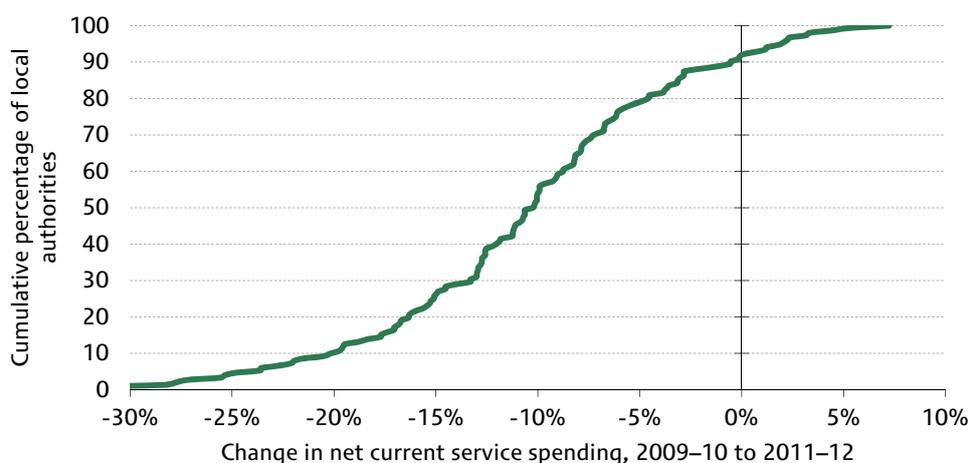
Coupled with the below-inflation increases in council tax rates in 2010–11, council tax revenues are predicted to have fallen by 2.1% in real terms between 2009–10 and 2011–12. While this is a real-terms decline in revenues, the relatively modest reduction does mean that the picture for local government financing as a whole does not look as bad as the large cuts to central government grants would on their own imply.

### Resulting cuts to net current service spending

The published budgets of local governments in England estimate net current expenditure (excluding education) equal to £56.5 billion in 2011–12, compared with £57.3 billion in 2010–11 and £59.2 billion in 2009–10. After adjusting for economy-wide inflation (estimated at 5.4% between 2009–10 and 2011–12), this represents a real-terms cumulative reduction in net spending of 9.4% over the two years. Given the cuts to central government grants to local government set out in the 2010 Spending Review, further cuts to local government spending are forecast for at least the following three years (2012–13 to 2014–15).

As discussed above, different local authorities face different cuts to their grant income and rely to different extents on such grant income versus income from other sources such as council tax. Total spending cuts at the national level therefore hide a lot of variation in the level of spending cuts planned at the local authority level. Figure 6.5 shows the distribution of planned changes in net current service spending (excluding education,

Figure 6.5. The distribution of changes in local government current service spending in England (excluding education, police and fire), 2009–10 to 2011–12



Notes: Excludes police and fire authorities and national parks, as these do not geographically align with the 'upper tier' councils used in this analysis. See also notes to Figure 6.4.

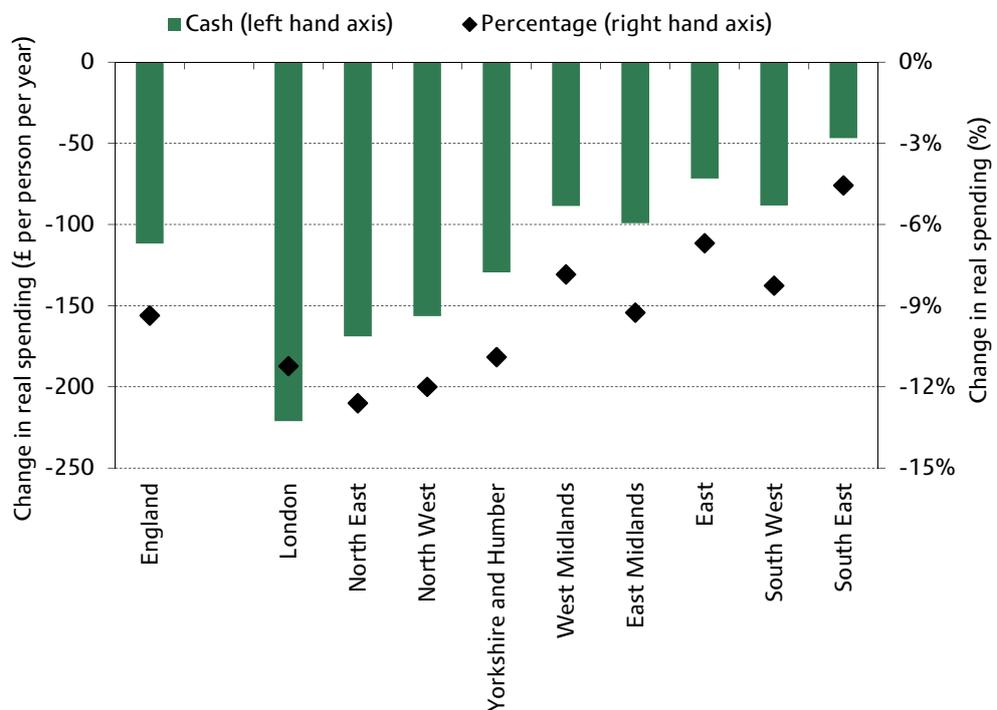
Source: Local government expenditure out-turns (2009–10) and budgets (2011–12), available at <http://www.communities.gov.uk>.

police and fire) between 2009–10 and 2011–12 across local authorities. The median local authority is planning to cut spending by 10.2% – in other words, half of local authorities are planning to cut spending by more than 10.2% and half of local authorities are planning to cut spending by less. This compares with a mean cut of 10.4%.<sup>7</sup>

Over one-quarter (26%) of councils are seeing real-terms cuts in net current service spending (excluding education, police and fire services) of 15% or more. Over-represented amongst this group are London boroughs, metropolitan districts, and unitary authorities covering urban areas in the North and Midlands. Around one-half of local authorities are making cuts of between 6% and 15%. On the other hand, around one-tenth of councils are planning real increases in their spending. Over-represented amongst this group are local councils covering more affluent areas, particularly in the South of England.

The spending cuts are larger in local authority areas where spending was initially higher. For instance, the average real-terms cut in current service spending (excluding education, police and fire services) in the quarter of local areas where spending was lowest in 2009–10 is 5.5%, versus 16.8% in the quarter of areas with the highest spending in 2009–10. This means that the extent to which local government spending varies across England is set to fall between 2009–10 and 2011–12. For instance, as shown in Figure 6.4, the top tenth of authorities were spending 64% more than the median and the bottom tenth 20% less than the median in 2009–10. Budgets for the current financial year imply that the corresponding figures for 2011–12 are 46% more and 18% less.

Figure 6.6. Cuts to local government net current service spending (excluding education), by region, 2009–10 to 2011–12



Source: Local government expenditure out-turns (2009–10) and budgets (2011–12), available at <http://www.communities.gov.uk>.

<sup>7</sup> Note that 10.4% is the reduction in spending excluding education, police and fire. The 9.4% figure in the previous paragraph is the cut when only education is excluded.

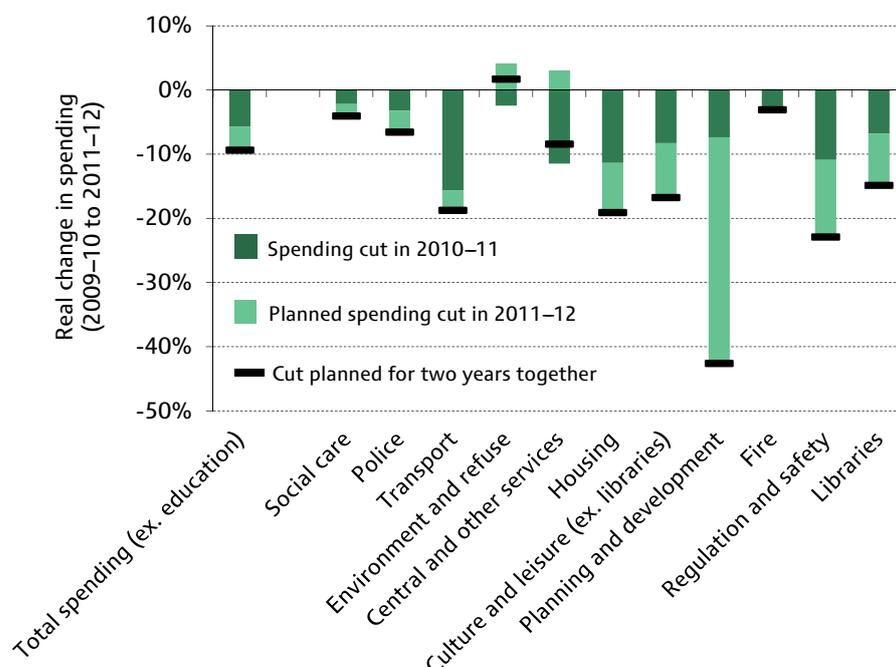
The result of this distribution of quite varied levels of cuts across local authorities is that there are different levels of average cuts across the regions of England. Figure 6.6 shows what the aggregated local authority decisions imply for the average cuts for each region, with the pounds-per-person change in spending shown by the green blocks and the percentage change in spending shown by the black diamonds. Net service expenditure (excluding education) – but including the police and fire services – was cut by £112 per person or by 9.4%.

Overall cuts in local government spending (excluding education) are largest in both absolute and proportionate terms in the high-spending regions of London (equivalent to £221 per person or 11.2%), the North East (£169 per person or 12.6%) and the North West (£156 per person or 12.0%). They are by far the smallest in the low-spending region of the South East (£47 per person or 4.6%). In general, the cuts in spending are larger in both absolute and proportional terms in those regions of the country with initially higher spending, and smaller in those with initially lower spending, reflecting a similar pattern found at the local authority level.

### Cuts by service

Differences in how much central government has decided to allocate to different types of authorities responsible for different services (for example, police authorities versus local councils) and the use of discretion by local government in setting spending priorities mean that spending cuts vary by service. Figure 6.7 shows how the spending cuts made in 2010–11 (in dark green) and the cuts planned for 2011–12 (in light green) are allocated across services. The black lines show the cuts planned for the two years together, measured as a percentage of spending in 2009–10. As discussed above, in 2011–12 local government current expenditure on services (excluding education) will be 9.4% below its 2009–10 level. Over half of this fall (5.7 percentage points) took place in 2010–11.

Figure 6.7. Cuts to local government current service spending in England, 2009–10 to 2011–12



Source: Local government expenditure out-turns (2009–10 and 2010–11) and budgets (2011–12), available at <http://www.communities.gov.uk>.

Spending on planning and development services is set to face the largest cuts of any service area, equivalent to 43% over the two years, largely due to significant cuts in spending on economic and community development programmes. Only around one-sixth of this cut was delivered in 2010–11, with the rest planned to take place during the current financial year, 2011–12. Spending on regulation and safety, housing, transport, culture and leisure (excluding libraries) and libraries are also set to be cut back relatively significantly (by 23%, 19%, 19%, 17% and 15%, respectively) over the two-year period. These cuts are fairly evenly spread over 2010–11 and 2011–12, with the exception of the cuts to transport services: around five-sixths of the cuts in this area were delivered in 2010–11.

Spending on social services, the largest component of non-education service expenditure, fire services and police services have been relatively protected: they have been cut by 4%, 3% and 7%, respectively in real terms. Whilst there were cuts to spending on environmental and refuse services and on central and other services in 2010–11, spending in these areas is planned to increase during 2011–12. For the former, the increase will more than offset the earlier cut, leaving spending 1.7% higher in real terms in 2011–12 than in 2009–10.

The average real-terms cut in net current service expenditure (excluding education) of 9.4% is equivalent to £112 per person. On average across England, the function contributing the greatest amount to the overall cut, in £ terms, is transport (at £25 per person), followed by planning and development services (at £20 per person) and social care services (at £17 per person).

Real current expenditure is being reduced, on average, in all regions of England for the following services: planning and development, transport, housing, regulation and safety, libraries, culture and leisure (excluding libraries) and police services. However, the size of the cuts in these areas does vary across the country, reflecting the different needs and preferences of individual local authorities.

Cuts to planning and development services are larger in London and the northern and midland regions of England, and are smaller in the East, South West and especially the South East of the country. This regional pattern of cuts reflects initial levels of spending on planning and development: as with overall expenditure, high-spending regions are engaged in larger cuts (in cash and proportional terms). Real-terms cuts to transport are largest in both absolute and percentage terms in London and the North West of England, the two regions with the highest expenditure, and are lowest in the South East and the West Midlands, both of which have expenditure below the English average.

Real expenditure on social services is being cut in all areas except the South East of England (where it is increasing by 0.6%). Spending on environmental and refuse services is planned to increase in four of the nine regions of England, most notably in the North West of England (by 13.6%), with the largest falls in London (by 5.6%).

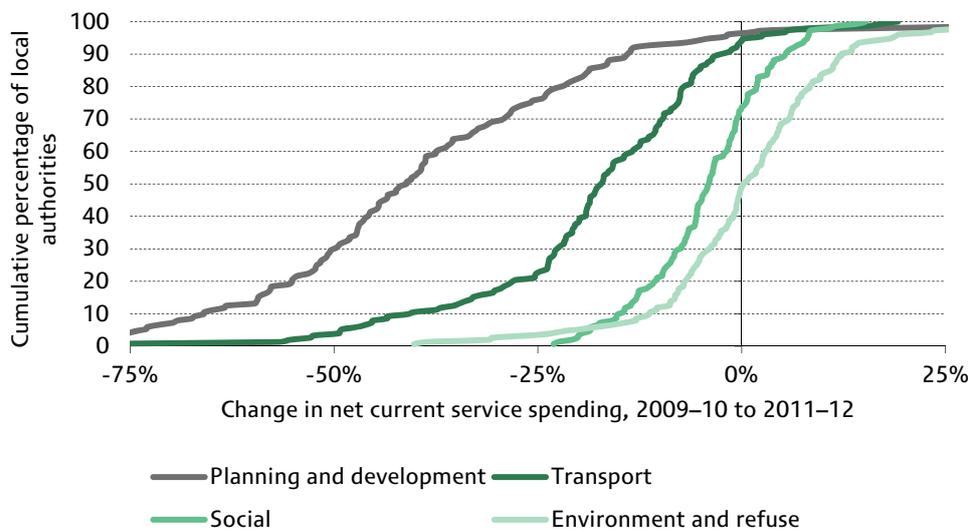
Figure 6.8 shows how the changes in spending vary across local authorities in England for four major service areas: social services, transport, environmental services and refuse, and planning and development.

Nearly all local authority areas are seeing real-terms cuts in their spending on planning and development services. The cuts are larger than 50% for around three-tenths of councils (with urban areas over-represented in this group) and over 40% for just over one-half of councils. The cuts are larger, on average, in those areas where spending on

planning and development services in 2009–10 was higher: for instance, 53% for the highest-spending quarter of local authority areas, versus 26% for the lowest-spending quarter of areas.

Nearly all local authority areas are also seeing a reduction in net current spending on transport services. The change in this expenditure varies significantly across the country: the quarter of council areas seeing the biggest cuts are seeing real-terms reductions in spending of more than 23.7%, while the quarter seeing the smallest cuts (or even increases in expenditure) face cuts of less than 7.8%. Again, cuts are higher, on average, in areas where initial spending on this service area was in the top quarter of local council areas (24%) as opposed to the bottom quarter of local council areas (14%).

Figure 6.8. The distribution of changes in local government net current spending on selected services in England, 2009–10 to 2011–12



Note: See notes to Figure 6.4.

Source: Local government expenditure out-turns (2009–10) and budgets (2011–12), available at <http://www.communities.gov.uk>.

Only half of local council areas are seeing real-terms cuts in their spending on environmental and refuse services. Urban areas (covered by unitary authorities, metropolitan districts or London boroughs) are over-represented in the group making the biggest cuts but also amongst those seeing the biggest increases in spending. More rural areas, covered by the shire counties, are generally seeing modest increases or reductions in expenditure on environmental and refuse services. However, again, the areas initially seeing high levels of spending are seeing cuts (3%), whilst those areas with initially low levels of expenditure will see real-terms increases in expenditure (3%).

Changes in current net expenditure on social care are least varied, although the degree of variation is still high: one-quarter of councils are making cuts of more than 9.0%, while one-quarter are seeing increases of 0.5% or more. Districts covering poorer urban areas are over-represented in the group making the largest cuts to social service expenditure: again this means those with initially high levels of expenditure will see substantial cuts (9.4%), whilst those with low levels of expenditure on social services will see only very modest cuts (0.6%).

## Changes in income from service provision

All the figures discussed so far are for net current service spending – a measure of spending that excludes expenditure financed through income received for services, such as user fees and charges. Local authorities have not published forecasts for all income from services in 2011–12, and therefore it is not yet possible to assess to what extent the planned falls in net expenditure between 2009–10 and 2011–12 reflect changes in gross expenditure on services and to what extent they reflect changes in income from sales, fees and other (non-grant) sources. However, it is possible to examine whether income from fees, charges and other sources changed during 2010–11, and therefore whether the first year of cuts involved significant cuts to gross current service spending as well as net current service spending.

Table 6.1 shows the percentage of gross expenditure on each service funded by sales, fees and charges, and the percentage funded by all non-grant income as a whole in 2009–10. It also shows the percentage change in net expenditure, income and gross expenditure between 2009–10 and 2010–11.<sup>8</sup>

Table 6.1. Change in income and gross expenditure, by service

Function	Income as percentage of gross expenditure (2009–10)		Percentage real change between 2009–10 and 2010–11		
	Total	Sales, fees and charges	Net expenditure	Total income	Gross expenditure
Social care	20.9%	9.9%	–2.2%	4.1%	–0.9%
Police services	7.6%	3.3%	–3.2%	–2.5%	–3.2%
Transport	31.5%	22.8%	–15.6%	–7.8%	–13.2%
Environment and refuse	18.7%	10.0%	–2.4%	2.4%	–1.5%
Central and other services	48.2%	17.5%	–11.5%	5.2%	–3.4%
Housing services	30.9%	17.4%	–11.4%	–21.5%	–14.5%
Culture and leisure (ex. libraries)	34.9%	22.6%	–8.3%	–4.3%	–6.9%
Planning and development	33.7%	19.5%	–7.4%	–1.0%	–5.2%
Fire services	3.4%	1.3%	–3.2%	9.6%	–2.8%
Regulation and safety	33.6%	21.7%	–10.9%	4.9%	–5.6%
Libraries	10.7%	6.0%	–6.8%	1.0%	–5.9%
Total (ex. education)	23.8%	12.5%	–5.7%	–0.7%	–4.5%

Note: Total income includes income received from internal trading (e.g. provision of services to other departments) as well as external.

Source: Local government expenditure out-turns, 2009–10 and 2010–11, available at <http://www.communities.gov.uk>.

<sup>8</sup> The income and gross expenditure figures for central and other services differ from those published by DCLG. This is because they have been adjusted to exclude income from (and spending on) providing the back-office functions that support other service areas (e.g. education). Inclusion of this income and spending (called ‘recharges’) would have led to double-counting of such administration costs.

The amount raised from sales, fees and charges, and non-grant income in general, varies significantly by service. For instance, around one-third of gross expenditure on transport, housing, other culture and leisure, regulation and safety, and planning and development is funded by non-grant income (or one-fifth from sales, fees and charges). On the other hand, around one-fifth of gross expenditure on social care and environmental and refuse services is funded in such a manner (or one-tenth from sales, fees and charges), with the proportion for most other service areas even lower.

Total income from the provision of services (excluding education) fell by 0.7% in real terms between 2009–10 and 2010–11. While it might be surprising that this did not increase significantly, on average, it is still a considerably lower cut than the 5.7% fall in net current service expenditure. This means that, on average across England, the cut to gross current spending was smaller than the cut to net current spending, at 4.5%.

For all services except housing, gross expenditure was reduced less than net expenditure in 2010–11, reflecting the more modest reductions in total income. Indeed, total income from the provision of social care, libraries, regulation and safety services, environmental and refuse services, and fire services all increased in real terms during 2010–11.

A small number of service areas actually provide local authorities with a *net income* on average – that is, the amount of money they get from charges associated with a service is greater than the cost of providing and administering it. Two examples of such services are parking services and cremations and burials. Net income generated from parking services is estimated to increase from £489 million in 2009–10 to £568 million in 2011–12 (or by 10.1% in real terms). Net expenditure on cremations and burials in 2009–10 of £8 million is estimated to have become net income of £21 million by 2011–12.

## 6.4 Putting the cuts in context

To put the cuts to local government spending over the last two years into context, it is useful to consider how local government spending has evolved over recent years. Figure 6.9 shows how changes in local government net service expenditure (excluding education) in England since 2001–02 compare with changes in total public current service spending in the UK.<sup>9</sup>

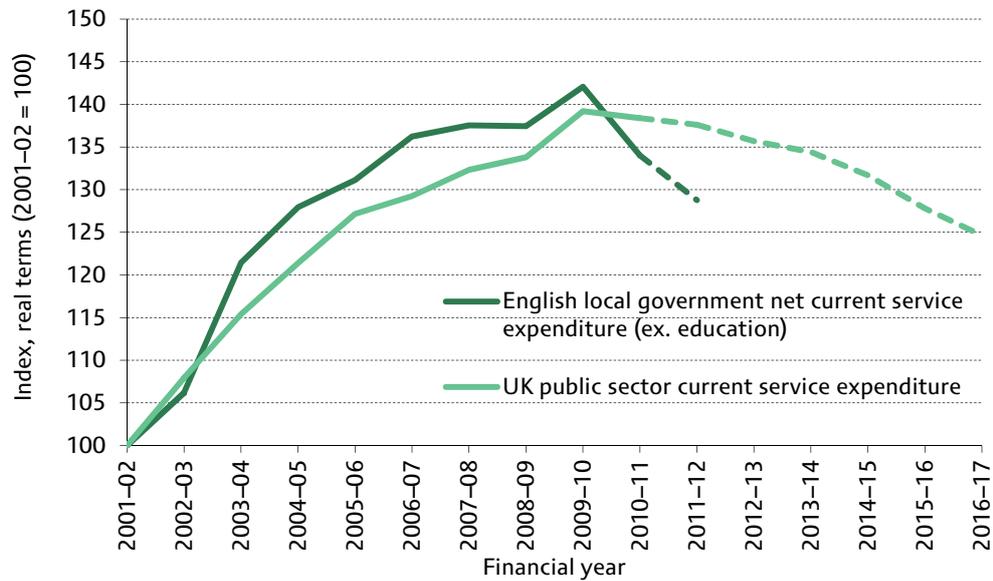
Local government net current service spending increased relatively rapidly between 2001–02 and 2006–07 (by over 36% in real terms), before growing more slowly. Spending fell in 2010–11, and it is forecast to fall to 29% above its 2001–02 level by 2011–12 (approximately the level of spending in 2004–05). This pattern, although less pronounced, is also found for UK public sector current service spending.

UK public sector current service expenditure is forecast to fall in real terms in each of the five years 2012–13 to 2016–17. The 2010 Spending Review set out significant cuts for the next three years (2012–13 to 2014–15) to the grants provided by central government to fund English local government expenditure. These cuts mean it is likely that the total cumulative cuts to local government spending will continue to outpace those expected of UK public sector current service spending as a whole to 2014–15. Furthermore, it is likely

---

<sup>9</sup> The earliest year for which expenditure data allow the construction of comparable categories to the rest of the chapter is 2001–02; earlier data (going back to 1996–97) are only available for total net current service spending (excluding education).

Figure 6.9. Comparing English local government net current service spending (excluding education) with trends in UK public sector current spending, 2001–02 to 2016–17



Notes: Public sector expenditure includes spending by central government, local government and public corporations. UK public sector current service expenditure is Total Managed Expenditure, less public sector net investment, gross debt interest payments and spending on net social benefits.

Sources: Local government expenditure out-turns (2001–02 to 2010–11) and budgets (2011–12), available at <http://www.communities.gov.uk>. UK public sector expenditure out-turns and forecasts can be found at [http://www.ifs.org.uk/ff/lr\\_spending.xls](http://www.ifs.org.uk/ff/lr_spending.xls).

that at least some of the cuts to overall current service spending planned for 2015–16 and 2016–17 will take the form of cuts to local government current service spending.

Table 6.2 shows net current service expenditure for each service area in 2001–02 and 2009–10 and allows comparison of the average growth rate (in real terms) over that period with the cuts planned between 2009–10 and 2011–12. Total current service expenditure (excluding education) increased at an average annual rate of 4.5% per year in real terms in the eight years to 2009–10, with most of this increase concentrated during the early part of the period. It is planned to be cut by an average 4.8% a year in real terms between 2009–10 and 2011–12.

A number of functions saw relatively rapid average annual real growth in spending between 2001–02 and 2009–10 but are planned to see large cuts between 2009–10 and 2011–12. Expenditure on housing services rose most rapidly, at an average annual rate of 14.1% in real terms. The cuts in spending in this area in 2010–11 and planned for 2011–12 together undo around three-tenths of the real-terms increase in spending that occurred during the previous eight years. Net current spending on transport grew by an average of 7.3% per year in real terms, the second-fastest growth rate of any service area. The cut in 2010–11 and the planned cut in 2011–12 (which together average almost 10% per year) will undo nearly half of this growth. Net current spending on planning and development grew by an average of 7.0% per year between 2001–02 and 2009–10, but in this case the cuts since then (averaging over 24% per year) are set to leave spending in 2011–12 lower in real terms than in 2001–02.

Table 6.2. Local government spending (2011–12 prices), by function

Function	Spending (£m) in 2001–02	Spending (£m) in 2009–10	Spending (£m) in 2011–12	Average annual real spending change	
				2001–02 to 2009–10	2009–10 to 2011–12
Social care	14,713	22,090	21,201	5.2%	–2.0%
Police services	10,160	12,669	11,840	2.8%	–3.3%
Transport	3,920	6,893	5,602	7.3%	–9.9%
Environment and refuse	2,756	4,167	4,239	5.3%	0.9%
Central and other services	3,766	3,834	3,512	0.2%	–4.3%
Housing services	1,002	2,876	2,328	14.1%	–10.0%
Culture and leisure (ex. libraries)	2,250	2,642	2,200	2.0%	–8.7%
Planning and development	1,421	2,434	1,398	7.0%	–24.2%
Fire services	2,065	2,294	2,224	1.3%	–1.5%
Regulation and safety	922	1,427	1,100	5.6%	–12.2%
Libraries	904	1,009	859	1.4%	–7.7%
<b>Total (ex. education)</b>	<b>43,879</b>	<b>62,336</b>	<b>56,503</b>	<b>4.5%</b>	<b>–4.8%</b>

Notes: Expenditure on parks and open spaces was classified as part of environmental services expenditure in the 2001–02 local government financial statistics. In this table, this expenditure is classified as part of expenditure on other culture and leisure to ensure consistency with later years.

Source: Local government expenditure out-turns (2001–02 and 2009–10) and budgets (2011–12), available at <http://www.communities.gov.uk>.

The relative winners are those functions that saw high average annual real growth in spending between 2001–02 and 2009–10, but that are not planned to see large cuts between 2009–10 and 2011–12 – namely, social care and environment and refuse services. Akin to the NHS, social care is a key spending priority for central government over the current Spending Review period. The 2010 Spending Review planned increases to the social care grant from the Department of Health to local authorities (by £0.6 billion in 2011–12) – although it should be noted that this money is treated as part of the Formula Grant and can therefore be used for purposes other than social care if local authorities so wish. The Spending Review also set aside money within the NHS budget for social care (£0.8 billion in 2011–12).

Overall, there is no clear pattern that service areas that previously saw larger increases have also seen larger cuts. Sizeable cuts to real-terms net expenditure on libraries and on other culture and leisure follow eight years of only modest growth in expenditure, such that spending in these areas will also be lower in 2011–12 than in 2001–02. On the other hand, spending on social care grew at a faster rate than overall local government service expenditure and is set to see smaller-than-average cuts. Clearly, if local authorities continue to (relatively) protect spending on social care, cuts in the other spending areas will have to be significantly more than the overall spending cuts would seem to imply.

## 6.5 Conclusions

This chapter represents an early description of how the initial changes in local government spending that need to be delivered as part of the fiscal tightening are being

distributed across the country and across service areas. The cut to net service spending by local government in England is significant: around 9.4% excluding education, or 10.4% excluding education, police and fire services, between 2009–10 and 2011–12, after accounting for economy-wide inflation. But these averages mask a wide degree of variation in the cuts facing different parts of the country. Local authorities serving areas of England with higher initial levels of local government spending are making larger percentage cuts to their spending than authorities initially spending less. This means the cuts are larger in both proportional and absolute terms in local authorities covering poorer, urban districts than in authorities serving more affluent or rural districts of England.

The size of cuts varies not only across the country, but also by type of service. Expenditure on environmental and refuse services is actually set to increase slightly in real terms, on average, between 2009–10 and 2011–12. Social care is also a relative winner: while spending is set to fall by 4% in real terms between 2009–10 and 2011–12, this is considerably less than the average overall cut, and follows eight years with an average annual real growth rate of 5.2%. Net current expenditure on fire services and, to a lesser extent, police services also look to be relatively protected. On the other hand, net expenditure on planning and development services is being cut drastically and, along with libraries and other culture and leisure, expenditure in this service area is planned to be lower in real terms in 2011–12 than it was in 2001–02. At least in terms of the cuts planned between 2009–10 and 2011–12, it does not appear to be a general rule that those service areas that had previously seen the largest (smallest) increases will see the largest (smallest) cuts.

Further real-terms cuts to central government grants to local government are planned every year between now and 2014–15, and continuing cuts to overall public service expenditure mean it looks likely that there will also be additional cuts in grants in 2015–16 and 2016–17. Local authorities will therefore continue to have to make tough decisions in the coming years about which services to cut back spending on or, perhaps, where user charges can be increased or introduced in order to maintain service provision. What is clear is that individuals will need to either expect less from their local authority in terms of the services provided or the quality of those services, or be willing to pay more for them through higher council tax or higher user charges.