

# The financial risk and resilience of English local authorities in the coronavirus crisis

IFS Briefing Note BN296

Kate Ogden  
David Phillips

# **The financial risk and resilience of English local authorities in the coronavirus crisis**

**Kate Ogden**  
**David Phillips**

*Copy-edited by Judith Payne*

*Published by*

**The Institute for Fiscal Studies**

ISBN 978-1-912805-88-4

The authors would like to thank Carl Emmerson and Paul Johnson for helpful comments on an earlier draft of this report. They would also like to thank Alex Burfitt and Aileen Murphie of the National Audit Office, David Caplan and Jeffery Matsu of the Chartered Institute for Public Finance and Accountancy, Bevis Ingram of the Local Government Association and officials from the Ministry of Housing, Communities and Local Government for helpful discussion of the indicators included in the risk and resilience dashboard (which are analysed in this report). However, all opinions and any errors or omissions are the responsibility of the authors only. The authors also gratefully acknowledge support from UKRI/ESRC COVID 19 Rapid Response funding (Je-s grant reference ES/V005073/1) and co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy (ES/M010147/1).

---

# Executive summary

Local authorities (LAs) across the country are among those on the front line of the coronavirus crisis. But geographical differences in demographic and economic structures make different parts of the country more vulnerable to different effects of the crisis – on health, on families and children, and on jobs and incomes. This means the demands and costs facing each LA will change in different ways and at different times. Moreover, differences in the extent to which each LA relies on different revenue sources, and in their financial reserves and commitments, mean they face differing degrees of financial risk and have differing degrees of financial resilience.

This report is published alongside a spreadsheet dashboard that collates for each LA in England a series of indicators of coronavirus-related risks. It looks at the extent to which these risks vary and the degree to which they are correlated, focusing on LAs' revenues and financial resilience. It also briefly discusses the extra funding that central government has made available to them to help them address these risks in the current financial year.

## Key findings

- **The government has allocated £3.2 billion of general funding to LAs to help them cope better with the impact of the coronavirus crisis on their spending and income.** Most of the first £1.6 billion of this was allocated on the basis of estimated needs for adult social care spending. But the second £1.6 billion has been allocated on a per-person basis, and 35% of funding from this tranche in areas with two-tier local government is going to lower-tier shire districts, up from less than 2% of the first tranche, with a reduction in the share going to upper-tier counties, which have responsibility for social care services.
- **The changes in how the second tranche of this funding has been allocated were motivated by returns from LAs suggesting the crisis is expected to impact income more than spending.** Returns from a group of urban authorities mostly in the Midlands and North of England suggest impacts on income could exceed impacts on spending by two-thirds, with income from business rates and sales, fees and charges particularly affected.
- **Lower-tier shire district councils are particularly reliant on business rates revenues and income from sales, fees and charges, likely putting them at greater risk of revenue falls.** On average, they could lose business rates revenues equivalent to 18% of revenue expenditure before a 'safety net system' compensates them for losses, compared with 6% for urban metropolitan districts and 2% for county councils. Fees for parking, cultural and leisure services, planning and trade waste schemes, which are likely at particular risk, are equivalent to an average of 29% of shire districts' budgets, compared with 7% for London boroughs and less than 1% for county councils.
- **There is substantial variation in reliance on these revenue sources between individual LAs, implying significant variation in risk to overall revenues.** One in ten shire districts rely on fees from parking, cultural and leisure services, planning and trade waste schemes for less than 9% of their expenditure, while another one in ten rely on them for more than 55%, for instance.

- 
- **LAs serving more deprived communities seem likely to be subject to less revenue risk than LAs serving more affluent communities.** First, they rely less on income from sales, fees and charges, and much less on council tax revenues. For example, the tenth of LAs with the highest levels of deprivation rely on council tax for 32% of their non-schools revenue expenditure, compared with 69% for the tenth of LAs with the lowest levels of deprivation. Second, a smaller share of jobs in their areas are in the sectors most affected by the coronavirus lockdown (such as non-food retail, hospitality and transport), and a smaller fraction of their adult residents are self-employed and had to wait until late May for financial support for loss of income.
  - **LAs' ability to cope with increased borrowing is likely to vary significantly.** For example, forecast reserves as of March 2020 (pre-COVID) were less than 20% of non-schools revenue expenditure in one in ten LAs, but more than approximately 160% of non-schools revenue expenditure in another tenth. Debt servicing costs, which are hard to adjust unless LAs are able to refinance debt on more favourable terms, are essentially nothing for one in ten LAs, but account for more than 20% of non-schools revenue expenditure in another tenth.
  - **On average, LAs that are more reliant on revenues that look particularly vulnerable in the short term have higher reserves, but this is far from always the case.** On average, shire districts have reserves equivalent to 110% of non-schools revenue expenditure, compared with 41% for London boroughs and 25% for shire counties. This should leave them better placed to manage a temporary decline in revenues. But three LAs (all shire districts) are among the bottom 30% of LAs in terms of reserves, but also among the top 30% in terms of reliance on sales, fees and charges (SFCs) from culture, parking, planning and trade waste and above-safety-net business rates revenues. For 19 LAs, income from these SFCs and above-safety-net business rates revenues exceeds their forecast reserves as of March 2020.
  - **LAs with higher levels of deprivation have residents who appear more vulnerable to the coronavirus crisis on a number of dimensions, potentially increasing service demands and challenges.** Mental ill health, homelessness and overcrowding, interventions from children's social services, and receipt of free school meals are higher in LAs with high levels of more general deprivation. If, as evidence suggests, households already facing challenges and poverty are more vulnerable to the stresses and strains of lockdown and social distancing, the demand for support from LAs and other public services could increase. Prevalence of conditions that increase the risk of severe COVID-19 – coronary heart disease, diabetes and hypertension – are also higher in some deprived LAs, especially in the North of England. If individuals with such conditions are asked or choose to socially distance for an extended period, they may need more support from LAs in both the short and longer terms.
  - **Taking these findings together suggests LAs of different types and serving different types of communities will be affected by the coronavirus crisis in different ways.** LAs serving more affluent communities and especially shire districts appear to be exposed to greater revenue risks due to their reliance on local taxes and SFCs income (rather than central government grants). On the other hand, LAs serving more deprived communities could see particular increases in service needs and challenges if the coronavirus crisis hits individuals and families already suffering disadvantage harder, and these effects could be long lasting. These patterns should be borne in mind by the government if and when it allocates further funding to LAs.

---

# 1. Introduction

Local authorities (LAs) are on the front line of the coronavirus crisis. They are responsible for a range of key services including social care, housing and homelessness prevention, and local public health services, which are seeing increases in demands and costs. Their revenues are being reduced by the economic effects of the social distancing policies put in place to tackle the coronavirus pandemic. And this all takes place following large cuts to funding over the last decade and an already challenging long-term funding outlook (despite the fairly large increase in central government funding that was planned for 2020–21, even before the coronavirus crisis).<sup>1</sup>

The crisis and these challenges are affecting LAs in every part of the country, with the Local Government Association (LGA) estimating reductions in income and increases in spending amounting to over £9 billion in 2020–21.<sup>2</sup> But geographical differences in demographic and economic structures make different parts of the country more vulnerable to different effects of the crisis – on health, on families and children, and on jobs and incomes. This means the demands and costs facing each LA will change in different ways and at different times. Moreover, differences in the extent to which each LA relies on different revenue sources, and in their financial reserves and commitments, mean they face differing degrees of financial risk and have differing degrees of financial resilience.

This report is published alongside a spreadsheet dashboard that collates for each LA in England a series of indicators of risks associated with:

- the health impacts of COVID-19;
- housing and family circumstances;
- reliance on particular revenue streams;
- financial reserves and payments on existing debts.

A recent report for the IFS Deaton Review of Inequalities looks at how risks to health, families and children, and the local economy vary and are correlated across English LAs.<sup>3</sup> The focus of this report is on LAs' financial risks, and in particular on: their reliance on income from revenue streams that could be particularly at risk; their financial reserves and payments on existing debts; and the degree to which these indicators correlate with each other and other LA characteristics. We do, however, discuss how socio-economic factors may affect shorter- and longer-term spending pressures arising from the coronavirus crisis.

---

<sup>1</sup> T. Harris, L. Hodge and D. Phillips, *English Local Government Funding: Trends and Challenges in 2019 and Beyond*, IFS Report R166, 2019, <https://www.ifs.org.uk/publications/14563>.

<sup>2</sup> LGA, 29 May 2020. See <https://www.local.gov.uk/coronavirus-certainty-needed-over-ongoing-covid-19-funding-vital-local-services>.

<sup>3</sup> A. Davenport, C. Farquharson, I. Rasul, L. Sibieta and G. Stoye, 'The geography of the COVID-19 crisis in England', IFS Deaton Review of Inequalities, 2020, <https://www.ifs.org.uk/inequality/the-geography-of-the-covid-19-crisis-in-england/>.

---

The focus of this report is England as we are able to utilise data that are collected on a consistent basis across England but, unfortunately, the same data do not cover Scotland, Wales and Northern Ireland. We may in future work look to produce similar analysis for some of these areas, depending on the availability of data and resources.

The rest of the report proceeds as follows. Section 2 discusses the funding English LAs have received from the government so far to help address the impacts of the coronavirus crisis. Section 3 briefly describes the types of indicators in our dashboard (with the appendix providing further detail). Section 4 examines the extent to which different LAs rely on revenue streams that could be particularly at risk, and their financial reserves and payments on existing debts. Section 5 looks at health, housing and family circumstances which could mean particular spending pressures. Section 6 concludes.

---

## 2. LAs' coronavirus funding

In recognition of the additional costs and loss of income that LAs are facing as a result of the coronavirus crisis and associated social distancing measures, the government has provided English LAs with extra grant funding, and changed the timing of payments to and from them to support cash flow. The allocation of support via these measures reflects an evolving view of how the crisis will affect different cost pressures, income streams and LAs.

### Additional general-purpose grant funding for LAs

Two tranches of additional general-purpose grant funding to help LAs cope with rising spending pressures and falling income have been announced so far:

- On 19 March, the government announced £1.6 billion of additional funding, with 87% of this allocated in line with assessed needs for adult social care spending as of 2013–14 and 13% allocated in line with how much funding LAs received on top of their own council tax revenues in 2013–14. As a result, LAs serving more deprived areas were allocated more both measured in pounds-per-resident terms and as a percentage of their overall expenditure. Furthermore, in areas with two-tier local government, upper-tier shire counties received the vast bulk of funding (98%), with lower-tier districts receiving an average of 45p per resident, as can be seen in column 1 of Table 1. Earlier analysis by IFS researchers suggested that while the specific formulae used were out of date, such an approach would be broadly sensible if it were felt the vast majority of financial stress would be due to adult social care costs.<sup>4</sup>
- On 18 April, the government announced a further £1.6 billion of funding. The allocation of this, announced subsequently on 28 April, is very different. Each part of England is receiving the same amount per resident (£28.12), with the share going to shire counties in two-tier areas reduced to 65% (or 62% if there is a separate fire authority) and the share going to shire districts increased from less than 2% to 35%: an average of £9.88 per resident, as shown in column 2 of Table 1. Taking the two tranches of funding together, this means that measured as a percentage of non-schools revenue expenditure, shire districts will see the largest boost to their funding overall (column 3). Overall, they will receive approximately one-fifth of the general-purpose funding provided to two-tier areas.

---

<sup>4</sup> D. Phillips, 'How much emergency coronavirus funding are different councils in England receiving? And is the funding allocation sensible?', IFS Briefing Note BN282, 2020, <https://www.ifs.org.uk/publications/14803>. Note that this previous analysis expressed funding allocations as a percentage of 'core spending power' (a measure of revenues including council tax, retained business rates and some grant funding). Instead, this report expresses allocations (as well as other quantities) as a proportion on non-schools revenue expenditure (which is revenue expenditure minus expenditure funded by ring-fenced education grants such as the Dedicated Schools Grant): see the appendix for further detail.

**Table 1. Amount of additional funding, by LA type**

Authority type	Average amount per resident (£)		(3) Average amount as % of non-schools revenue expenditure
	(1) Tranche 1	(2) Tranche 2	
Unitary authorities	£27.68	£27.44	6.2%
Metropolitan districts	£32.54	£27.38	6.2%
London boroughs	£28.12	£27.10	5.9%
Shire county areas	£25.48	£27.66	6.1%
<i>Of which: counties</i>	<i>£25.03</i>	<i>£17.78</i>	<i>5.9%</i>
<i>                  districts</i>	<i>£0.45</i>	<i>£9.88</i>	<i>7.3%</i>
Greater London Authority	£1.03	£1.02	0.3%
Fire authorities	£0.17	£0.74	1.5%
<b>All England</b>	<b>£28.23</b>	<b>£28.12</b>	<b>5.3%</b>

Note: Funding per resident is split between the different tiers of local government that exist in each area.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

The Ministry of Housing, Communities and Local Government (MHCLG) has said that the second tranche of funding was based on ‘the latest assessment on [sic] the challenges they are facing’.<sup>5</sup> In particular, it likely drew on responses to a survey sent to LAs by MHCLG, asking them to identify the expected impact of the coronavirus crisis on different spending areas and revenue sources.

Groups of local authorities have published information from the responses to this (now monthly) survey by their groups, including SIGOMA and the County Councils Network.<sup>6</sup> Tables 2 and 4 show the combined estimates of extra costs by service area and loss of income by income stream for the SIGOMA LAs, while Table 3 shows the combined estimates of extra costs by service area for the County Councils Network (CCN).

These estimates will be subject to significant uncertainty and different LAs will have made different assumptions about the duration of the lockdown period. On the one hand, if full or partial lockdown lasts longer than expected, impacts on costs and revenues could be greater than expected. On the other hand, there could be a financial incentive to overstate rather than understate estimated costs – in the hope that this will elicit more funding from the government.

<sup>5</sup> See <https://www.gov.uk/government/news/government-confirms-allocations-of-1-6-billion-funding-boost-for-councils>.

<sup>6</sup> The County Councils Network represents all 25 shire county councils as well as 11 unitary authorities. A list of members is available at <https://www.countycouncilsnetwork.org.uk/about/ccn-councils/>. SIGOMA represents 47 urban English LAs located in the Midlands, North and on the south coast. A list of members is available at <https://www.sigoma.gov.uk/>.



However, the pattern across service areas and income streams for the SIGOMA LAs shows that they anticipate impacts to be greater for income than for spending and that commercial income, sales, fees and charges (SFCs), and retained business rates are particularly at risk. As Section 4 of this report shows, shire districts are particularly reliant on these income sources, which may justify the big increase in their share of support in the second tranche of funding.

It is also worth noting that cost pressures for adult social care services are estimated to account for just over one-third of cost pressures and around one-seventh of all pressures for 2020–21 as a whole for SIGOMA LAs. Again, this suggests that moving away from the approach used to allocate the first tranche of funding was reasonable.

Nevertheless, Table 2 also shows that relative to pre-COVID gross expenditures (which we proxy using expenditure in 2018–19), proportional spending pressures for adult social care (just over 5%) are second only to those for housing and homelessness services (just under 8%). Impacts on spending on planning and development, highways and transport, and public health services are forecast to be much lower in proportional as well as cash terms.

**Table 2. Reported coronavirus cost pressures, for SIGOMA LAs**

Service area	Total estimated cost pressures (£m)		Total expenditure, full financial year 2018–19 (£m)
	April and May 2020	Full financial year 2020–21	
Adults' social care	134	314	5,797
Children's social care	24	80	2,932
Education	8	26	9,555
Highways & transport	5	10	988
Public health	2	5	1,089
Housing & homelessness	13	37	480
Cultural services	11	33	1,019
Environment & regulation	20	43	1,341
Planning & development	1	5	574
Finance & corporate	20	42	2,679
Other	80	261	n/a
<b>All service areas</b>	<b>318</b>	<b>856</b>	<b>n/a</b>

Note: 'Other' cost pressures include the costs of shielding, PPE (non-adult-social-care), unachieved savings / delayed projects and those relating to other service areas (education, police and fire).

Source: SIGOMA analysis of May returns from member LAs to MHCLG (46 of 47 LAs). Total expenditure is total gross spending (staffing costs and running expenses) by service area from out-turns for 2018–19, as this is the latest data on gross expenditure available, and is for the same 46 LAs.

**Table 3. Reported coronavirus cost pressures, for CCN LAs**

Service area	Total estimated cost pressures (£m), full financial year 2020–21	Total expenditure (£m), full financial year 2018–19
Adults' social care	774	10,537
Children's social care	134	3,911
Education	82	14,899
Highways & transport	34	2,103
Public health	6	1,206
Housing & homelessness	17	241
Cultural services	18	662
Environment & regulation	71	1,820
Planning & development	5	422
Finance & corporate	52	2,315
Other	309	n/a
<b>All service areas</b>	<b>1,502</b>	<b>n/a</b>

Note: This includes all 36 councils in membership of the County Councils Network (CCN), as well as the Isle of Wight Council, Bedford Council and Cheshire West & Chester Council. 'Other' cost pressures include the costs of shielding, PPE (non-adult-social-care), unachieved savings / delayed projects and those relating to other service areas (education, police and fire).

Source: Analysis commissioned by the CCN, available at <https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-councils-in-shire-counties-face-unsustainable-coronavirus-deficit/>. Based on May returns from LAs to MHCLG. Total expenditure is total gross spending (staffing costs and running expenses) by service area from out-turns for 2018–19, as this is the latest data on gross expenditure available, and is for the same 39 LAs.

Table 3 shows that the pattern of cost pressures reported by the CCN LAs, which include all 25 shire county councils, is broadly similar to that of SIGOMA authorities. However, adult social care amounts to more like half of overall estimated spending pressures, and is the area with the greatest proportional spending pressures (around 7%), albeit closely followed by housing & homelessness.

Table 4 shows the income that SIGOMA members received in 2019–20 (for council tax and retained business rates) or 2018–19 (SFCs) to give a sense of the relative scale of losses for different income sources. This suggests that these LAs now expect income losses of around 10% compared with their expected income from these sources before the coronavirus crisis, with the greatest proportional hit to sales, fees and charges, and the smallest proportional hit to council tax.

**Table 4. Coronavirus income pressures, for SIGOMA LAs**

Income stream	Total estimated income pressures (£m)		Total income, full financial year (£m)
	March and April 2020	Full financial year 2020-21	
Retained business rates	38	426	4,638
Council tax	40	288	5,229
Sales, fees and charges	83	348	1,464
Commercial income	47	279	n/a
Other income	14	80	n/a
<b>Total income pressures</b>	<b>222</b>	<b>1,421</b>	<b>n/a</b>

Note: It is not known how much commercial or other income these LAs received in previous years.

Source: SIGOMA analysis of April returns from member LAs to MHCLG (45 of 47 LAs), as these were collected on a comparable basis to figures in Table 2, unlike income figures in the May return. Total income from retained business rates and council tax are from 2019-20 budgets. Income from sales, fees and charges is total gross income, excluding those from schools or social care, and is from out-turns for 2018-19. Income figures are for the same 45 LAs.

Equivalent figures for income losses for CCN LAs are not available on a consistent basis, but based on returns from 34 out of 36 of its members, the CCN has estimated cost pressures of £1.3 billion – including for adult social care – and income losses of at least £750 million.<sup>7</sup> Differences in the balance between costs and income compared with those for SIGOMA members will likely reflect the fact that most members of the County Council Network are in parts of the country with two-tier local government, and lower-tier districts are likely bearing a large share of income losses in these regions, as indicated in Section 4 of this report.

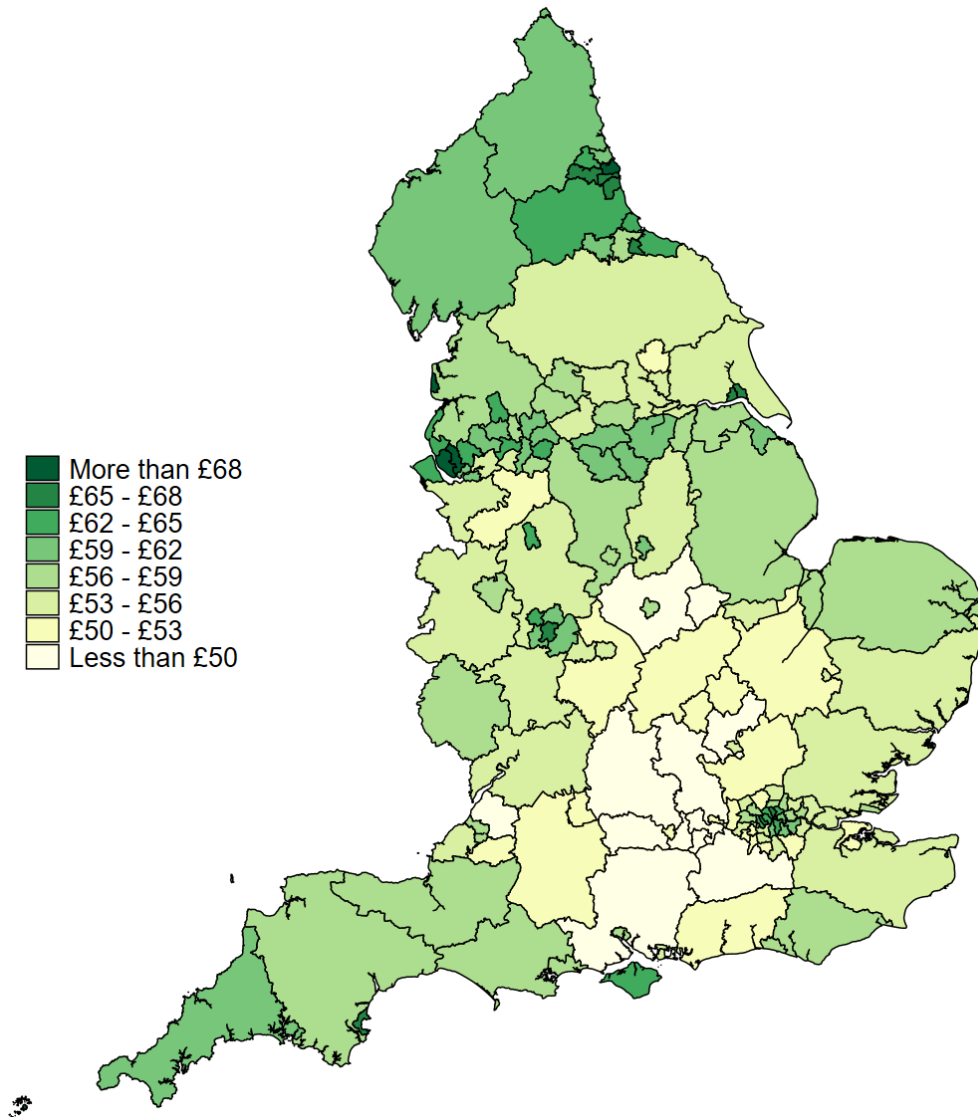
### Variation in allocations across the country

Taking the two tranches of funding and allocations to different tiers of local government together, Figure 1 shows how much is being allocated per resident to different parts of England.

Funding per person varies from an estimated £43 per person in Wokingham, Berkshire up to £73 per person in Knowsley, Merseyside. More generally, it is lowest in the Home Counties, especially to the west of London, and highest in parts of Merseyside, Teesside, Tyneside and inner London, as well as deprived seaside towns and cities such as Blackpool, Kingston-upon-Hull and Torbay. And while in one in ten LA areas it amounts to £50 per resident or less, in another one in ten it amounts to £64 per resident or more.

<sup>7</sup> See <https://www.lgcplus.com/finance/sigoma-and-counties-report-4bn-covid-19-impact-27-04-2020/>.

**Figure 1. Additional funding per resident across all tiers of local government, by upper-tier LA area**



Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

The allocation of the second tranche of funding on a per-resident basis means that taking the two tranches together, differences in allocations are proportionally much smaller than for the first allocation alone. For example, whereas in the first tranche Knowsley received 3.0 times as much per resident as Wokingham, its total allocation is now 1.7 times as much. Similarly, whereas in the first tranche of funding the 10 most deprived LA areas received an average of 1.7 times as much per resident as the 10 least deprived LA areas, taking the two tranches together that ratio is now 1.3.

### Other grant funding and cash-flow measures

In addition to providing £3.2 billion of additional general-purpose funding for LAs, the government has announced a number of other measures that provide additional funding for specific purposes or that support cash flow:

- £600 million of additional ring-fenced funding for infection control in care homes and community care settings is being provided to LAs with responsibility for social care services. Two tranches of £300 million will be made available, with the second tranche conditional upon the conditions for the first tranche being met: it must be used for infection control (including staffing measures); and 75% must be passed straight to care homes, with up to 25% potentially for use in community care settings. Funding has been allocated on the basis of the number of care home beds in each LA area, adjusted for differences in local wages and prices. The average payment is £1,312 per care home bed, ranging from £1,283 in much of the Midlands, North and South West, to £1,537 in inner London and £1,925 for the remote Isles of Scilly.
- Alongside this, monthly payments of £0.7 billion of existing grant funding for social care services due in April, May and June were made in a single instalment in April. This provided additional cash-flow support to those LAs with responsibility for social care services, but will not affect funding levels in the medium term.
- £500 million of additional funding has been provided to LAs with responsibility for collecting council tax to help them provide extra support to working-age residents struggling to pay their council tax bills.<sup>8</sup> This funding equates to about 1.5% of the £33 billion of council tax due to be collected in 2020–21, or – perhaps more relevantly – about 27% of what LAs currently spend on existing council tax support (CTS) schemes for working-age residents. It is allocated based on CTS scheme caseloads as of Q4 2019 – which is likely to be a reasonable proxy for the cost of increasing support for existing claimants, but may not be for the costs of a potential surge in claims among those experiencing job losses or falls in their income.

The government has said it ‘strongly expects’ LAs to provide an additional £150 discount to all working-age claimants from the CTS schemes and that they should use any remaining funds to support ‘the financial needs of their most vulnerable residents’. This includes additional discretionary discounts, support through local welfare schemes, or discounts of more than £150. In other words, the funding is aimed at allowing LAs to increase the support they provide to residents, rather than addressing the financial impact of increased levels of non-payment on LAs’ finances.

The funding could indirectly support LAs’ finances if some households in receipt of this (central-government-funded) support would not have paid the tax they would otherwise have owed. And legally, LAs could choose to spend at least part of the funds differently from how the government ‘expects’ them to. On the other hand, increasing the generosity of CTS schemes could worsen LAs’ finances as the cost of additional claims (e.g. among people who have lost their jobs) is also increased.

- £10.1 billion of additional ring-fenced funding is being provided to LAs to cover the cost of 100% business rates discounts for properties in the retail, hospitality and leisure sectors. Up to £12.9 billion of ring-fenced funding is being provided to pay for grants to the occupiers of certain non-domestic properties.<sup>9</sup> Funding for the discounts is being allocated on the basis of LAs’ own estimates of the costs of these discounts. Most of the

<sup>8</sup> MHCLG, ‘Council tax: COVID-19 hardship fund 2020 to 2021 – guidance’, 2020, <https://www.gov.uk/government/publications/council-tax-covid-19-hardship-fund-2020-to-2021-guidance>.

<sup>9</sup> See K. Ogden and D. Phillips, ‘COVID-19 support through the business rates system: how does the pattern of support vary across England?’, IFS Briefing Note BN293, 2020, <https://www.ifs.org.uk/publications/14882>.

---

funding for the grants was paid up front at the start of April based on government estimates of grant eligibility. Actual eligibility is likely to differ, sometimes significantly, and the government has confirmed it will top up funding if needed. It has yet to confirm that it will claw back unused funds, but it is highly likely it will, given that these unused funds will be highly concentrated among a small group of LAs.

- Alongside this, LAs were able to defer £2.6 billion of business rates payments to central government (i.e. from the part not due to be retained locally) that would otherwise have fallen due in April, May and June. This will provide additional cash-flow support to those LAs with responsibility for collecting business rates, but will not affect funding levels in the medium term.

---

### 3. The coronavirus risk dashboard

In this section, we turn to our financial risk dashboard and explain its purpose and the type of indicators it includes. The appendix provides more detailed information on each indicator included, and the next two sections look at how revenue risk, financial resilience, and indicators of health-, housing- and family-related vulnerabilities vary across LAs and by LA type and characteristics.

The first thing to note about the dashboard is that it does not aim to provide an overall 'risk rating' for each LA. This is because it is unclear what weight should be put on each indicator, and a number of important factors are unobserved or omitted. But by bringing together a range of relevant indicators of risks to revenues and costs, it does allow the identification of LAs that look to be subject to more or less risk on different dimensions, and how these risks are correlated. To aid in this, the dashboard groups indicators into different categories and shows how each LA's figures compare with those of other LAs of the same type or all other LAs. A colour coding system shows whether for each indicator an LA appears relatively high (red) or low (green) risk, based on which decile group for that indicator the LA is in, where group 1 is the highest and group 10 the lowest risk.

Indicators are grouped into the following categories:

- assessed prevalence of COVID-19;
- indicators of health-related risks;
- indicators of housing- and family-related risks;
- indicators of revenue risk;
- indicators of financial resilience and commitments.

The first three sets of indicators are included not only as indicators of the vulnerability of local populations to the health and social impacts of the coronavirus crisis, but as factors that may potentially increase the impacts on LAs' spending and, in some instances, LAs' income. For example, populations that have higher rates of ill health and disability, that are more likely to be homeless or living in overcrowded housing, that are more likely to be interacting with children's social services or in receipt of free school meals, and that more generally are deprived seem more likely to be adversely affected by coronavirus itself and by the associated lockdown and social distancing measures.<sup>10</sup> This may increase the demand for (and in some cases the costs of) services for LAs in the short and longer term.

---

<sup>10</sup> See, for example: J. Banks, H. Karjalainen and C. Propper, 'Recessions and health: the long-term health consequences of responses to coronavirus', IFS Briefing Note 281, 2020, <https://www.ifs.org.uk/publications/14799>; J. Banks and X. Xu, 'The mental health effects of the first two months of lockdown and social distancing during the Covid-19 pandemic in the UK', *Covid Economics: Vetted and Real-Time Papers*, 2020, issue 28, pp. 91–118, <https://cepr.org/content/twenty-eighth-issue-covid-economics-vetted-and-real-time-papers>; A. Andrew, S. Cattan, M. Costa Dias, C. Farquharson, L. Kraftman, S. Krutikova, A. Phimister and A. Sevilla, 'Learning during the lockdown: real-time data on children's experiences during home learning', IFS Briefing Note BN288, 2020, <https://www.ifs.org.uk/publications/14848>; and R.

---

The next set of indicators measure LAs' reliance on income from council tax, retained business rates and selected SFCs that seem particularly likely to be adversely affected by the coronavirus crisis, as well as their reliance on net income from commercial activities (a gross measure of which is, unfortunately, not available). Also included are a number of economic indicators that may make reductions in these sources of revenue more likely.

The final set of indicators measure LAs' financial reserves, debt servicing costs and social care expenditures relative to the size of the LA's budget. Higher reserves mean LAs likely have greater scope to absorb increases in spending and reductions in income – at least for a time. It may be difficult for LAs to reduce spending on debt servicing and social care, so that higher levels of spending on these items mean less budgetary flexibility.

The dashboard also includes the funding LAs have received from the government so far to help address the financial impacts of the coronavirus crisis and to fund additional council tax reductions for residents in receipt of income-based discounts ('council tax support'). These are not risk indicators, but are included as a memo item.



---

## 4. Revenue risk and financial resilience

This section focuses on the revenue risk and financial resilience indicators introduced in Section 3 and described in more detail in the appendix. It looks at the extent to which reliance on income from local taxes and SFCs varies by LA type and more generally across English LAs; how resilience indicators such as reserve levels vary; and how these measures are correlated. It finds that LAs with more affluent populations are likely more exposed to falls in income and that LAs that rely more on sources of income that may be expected to be most at risk have higher levels of financial reserves, in general, but that this is not always the case.

### Revenue risks: sales, fees and charges and local taxes

Taken together, revenue from local taxes and SFCs provides a large majority of LAs' overall funding. In particular:

- LAs budgeted to raise £26.8 billion for themselves (plus almost £5 billion for police, fire and other authorities) from council tax in 2019–20, equivalent to an average of 51% of non-schools revenue expenditure.
- LAs budgeted to retain £16.3 billion in business rates revenue in 2019–20. As discussed in more detail in the appendix, not all of these business rates revenues are at risk: a safety net compensates LAs in full if revenues drop below 92.5% of the amount they were assessed to need in 2013–14 (adjusted for inflation). Financial returns submitted before the coronavirus crisis suggest LAs planned to retain £2.6 billion of revenues above these safety-net thresholds in the current financial year, 2020–21. This is equivalent to 5% of non-schools revenue expenditure as of 2019–20.
- LAs reported income of £12.4 billion from SFCs in 2018–19, the latest year for which data are currently available. Of this, £2.7 billion was from the selected services included in our dashboard – parking and penalties, planning, culture, and trade waste – which could be at particular risk in the coronavirus crisis, equivalent to 5% of LAs' non-schools revenue expenditure in 2018–19. In addition, we also consider a broader measure of income from SFCs in case a wider range of services is impacted. LAs reported income of £7.7 billion from SFCs not related to schools (which are funded separately from other local government services) or social care (where one may expect SFCs income to hold up relatively well given continued demand for social care services) in 2018–19, equivalent to 15% of LAs' non-schools revenue expenditure.

However, dependence on these sources of revenue varies significantly across LAs. Table 5 shows that, as a result, there are significant differences in the extent to which different types of LA rely on these revenue sources, on average. In particular, the table shows that:

- Shire districts are significantly more reliant on income from both the selected and broader categories of SFCs income, as well as above-safety-net business rates revenues. Falls in these sources of income would therefore be likely to have a much larger effect on the overall income of shire districts than other types of LAs. Falls in SFCs income would immediately impact LAs' main financial accounts, and are unlikely to be recouped later. Falls in business rates revenues are initially absorbed in a special set of accounts (called Collection Fund accounts) and will only affect LAs' main accounts next year in

2021–22 when pre-coronavirus forecasts for business rates revenues need to be reconciled with actual out-turns. However, shire districts, which collect business rates (and council tax) on behalf of all LAs in their areas, may still find their actual cash-flow positions (i.e. the cash at hand and in the bank) adversely affected by falls in business rates revenues in 2020–21.

- Shire counties are significantly less reliant on income from the selected and broader SFCs categories. This reflects the fact that responsibility for many chargeable services lies mostly with lower-tier shire districts while responsibility for many expensive and often free services, which are funded by government grants or local council tax payers, instead lies with upper-tier counties. Shire counties are also much less reliant on above-safety-net business rates revenues. This reflects the design of the business rates retention system, which allocates a large majority of business rates revenue growth to shire districts rather than counties. As business rates are collected on their behalf by shire districts, they are also insulated from any immediate cash-flow impacts.
- On the other hand, shire counties are significantly more reliant on council tax than other types of LAs. This represents a risk to county councils' finances in 2021–22 rather than the current financial year though, as council tax is collected on their behalf by districts, with in-year payments to counties based on estimated tax liabilities and collection rates that are agreed in advance (in this case, prior to the outbreak of COVID-19 in the UK). Coronavirus-related increases in claims for council tax support and/or increases in non-payment among those still liable to pay council tax in 2020–21 will then be netted off estimates of the amount that will be collected in 2021–22 when calculating payments of council tax revenues to counties in 2021–22. These adjustments to 2021–22 payments will also reflect estimates of the amount of unpaid council tax that can be recouped via enforcement action.

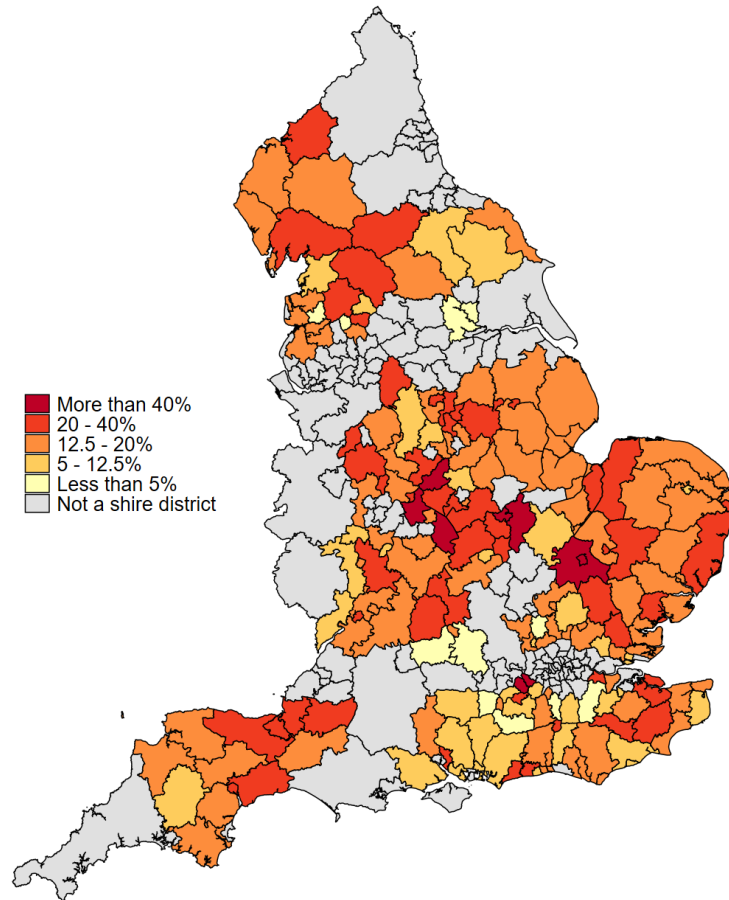
**Table 5. Revenue from council tax, business rates (above safety net) and SFCs, by LA type (% of non-schools revenue expenditure)**

LA type	Council tax	Business rates (above safety net)	Selected SFCs	All SFCs except schools & social care
London boroughs	42.5	4.9	7.1	25.7
Metropolitan districts	39.5	6.1	3.5	9.8
Shire counties	63.9	2.1	0.7	4.8
Shire districts	45.1	17.9	28.9	57.3
Unitary authorities	52.2	4.6	5.7	15.5
<b>All England</b>	<b>50.9</b>	<b>5.0</b>	<b>5.2</b>	<b>15.1</b>

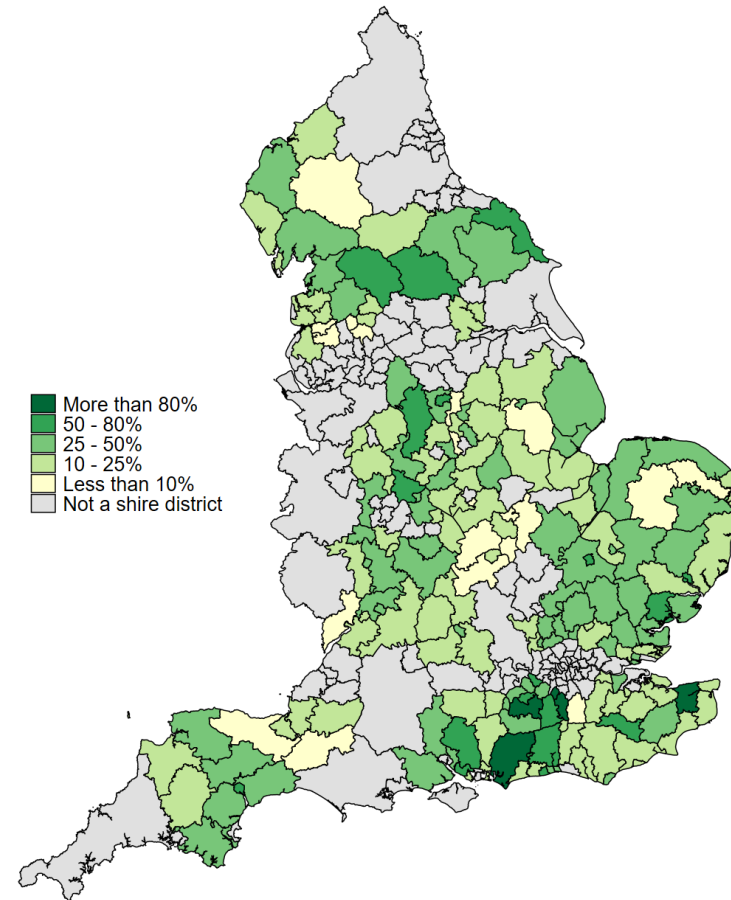
Note: Figures for council tax are based on budgets for 2019–20 and business rates on NNDR1 returns for 2020–21; both are divided by non-schools revenue expenditure as of 2019–20. Figures for SFCs are from out-turns for 2018–19 and are divided by non-schools revenue expenditure as of 2018–19. Selected SFCs are those relating to parking and penalties, planning, culture, and trade waste. Excludes City of London and Isles of Scilly.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

**Figure 2. Income from above-safety-net business rates revenues for shire districts (% of non-schools revenue expenditure)**



**Figure 3. Income from selected SFCs for shire districts (% of non-schools revenue expenditure)**



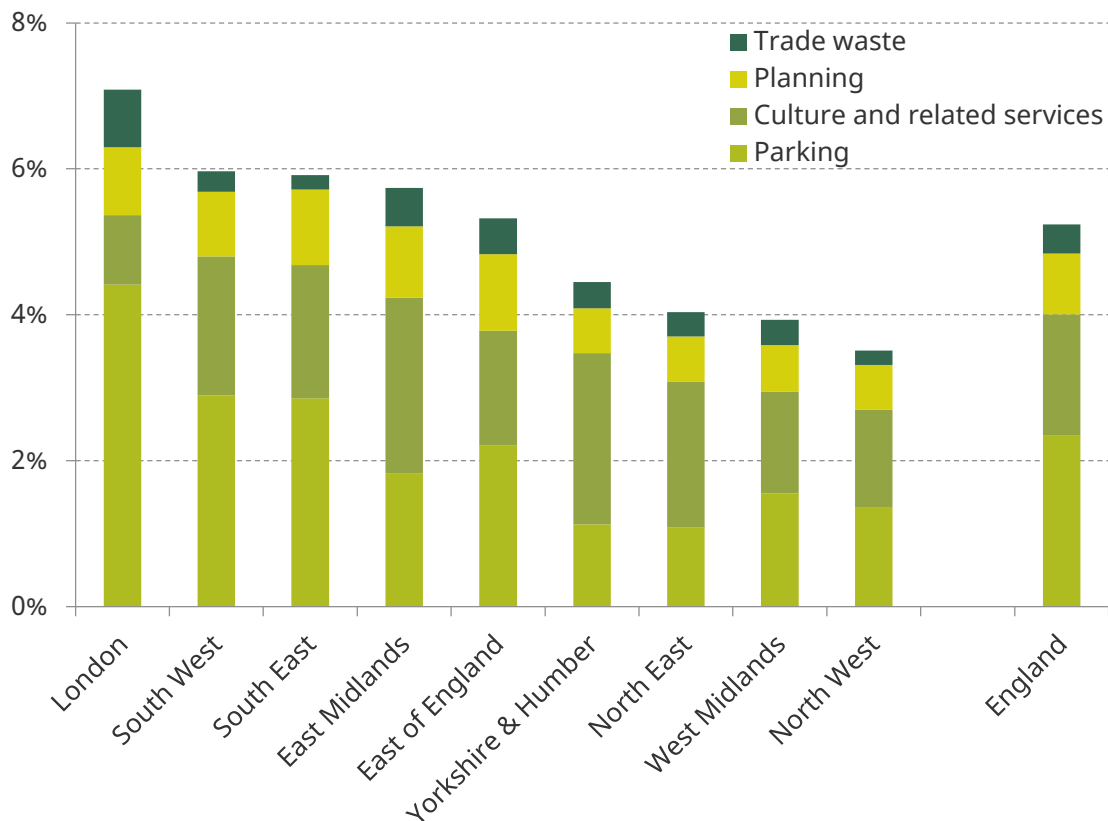
Note: Figures for business rates are based on NNDR1 returns for 2020–21 but are divided by non-schools revenue expenditure as of 2019–20. Figures for SFCs are from out-turns for 2018–19 and are divided by non-schools revenue expenditure as of 2018–19.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

Differences between LA types reflect even larger differences between individual LAs, especially for SFCs and business rates among shire districts. For example, while in one in ten shire districts, income from the selected SFCs accounts for less than 9% of non-schools revenue expenditure, in another tenth it is equivalent to more than 55%. Similarly, while forecast above-safety-net business rates revenues are equivalent to less than 8% of revenue expenditure in one in ten shire districts, in another tenth they are equivalent to more than 30%.

Figures 2 and 3 show how reliance on above-safety-net business rates revenues and selected SFCs among shire districts varies on a geographic basis. Even neighbouring LAs may rely on these sources for very different amounts. For example, in Tandridge in Surrey, income from the selected SFCs is equivalent to less than 7% of non-schools revenue expenditure, compared with 88% in neighbouring Reigate & Banstead. This means LAs in neighbouring areas, often with similar characteristics (both the aforementioned LAs are relatively affluent commuter zones for London), may see their overall revenues affected in very different ways by the coronavirus crisis. But the figures also show some clustering, with a concentration of LAs that are most reliant on SFCs in Surrey, for example.

**Figure 4. Income from selected SFCs for all tiers of local government (% of non-schools revenue expenditure)**



Note: Figures for SFCs are from out-turns for 2018–19 and are divided by non-schools revenue expenditure as of 2018–19. Excludes City of London and Isles of Scilly.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

---

Taking all tiers of local government together, Figure 4 shows that LAs in London and southern and eastern regions of England rely more on our selected SFCs. These differences are driven almost entirely by income from parking and enforcement action, so the extent to which shopping, commuting and travelling remain depressed could have an important bearing on the extent to which falls in SFCs income affect different regions.<sup>11</sup>

Income from the selected SFCs is equivalent to a lower fraction of non-schools spending in LAs serving more deprived communities, but a higher fraction in LAs where population density is higher. This is again driven to a large extent by income from parking and traffic enforcement, especially in areas with single-tier local government.

### **Deprivation, labour markets and council tax**

There is no statistically significant relationship between either deprivation or population density and reliance on above-safety-net business rates revenues. However, reliance on council tax revenues is strongly negatively correlated with both deprivation and population density. The first correlation is because LAs serving more deprived communities both have a higher fraction of properties in lower tax bands and have higher assessed spending needs, on average, than LAs serving more affluent communities. Therefore they can raise less in council tax for a given tax rate and receive more in the way of grant funding to top up their own tax revenues. The second correlation may reflect the fact that LAs in urban areas (especially inner London) tend to set lower council tax rates than LAs in more rural areas.

Figure 5 shows that, on average, the most deprived tenth of LAs relied upon council tax for 32% of their non-schools revenue expenditure in 2019–20, compared with 69% for the least deprived tenth of LAs. Falls in council tax revenue would therefore have a bigger impact on overall revenues for less deprived LAs. Differences in the proportions of properties in different council tax bands and tax rates across regions mean there are also significant regional differences in reliance on council tax. For example, LAs in the South East raise the equivalent of 64% of non-schools revenue expenditure in council tax, compared with an average of 51% across England as a whole, and the figure is around 43% in both the North East (due to many properties being in low bands) and London (driven partly by low tax rates).

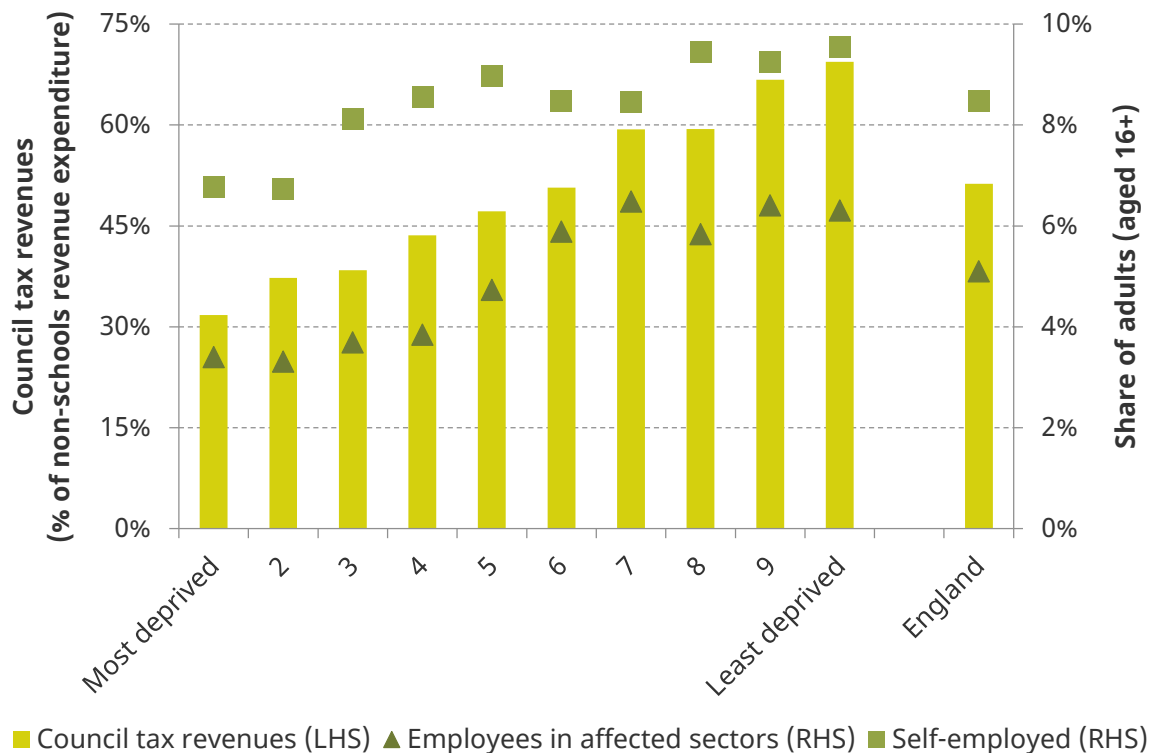
The figure also shows the share of adult residents who are self-employed, and the estimated share who are employees in sectors particularly affected by the coronavirus lockdown.<sup>12</sup> Those working in affected sectors may be more likely to have seen a reduction in income (e.g. if they have been furloughed or laid off) and be more uncertain about future job and income prospects, which may make them more likely to be or become eligible for financial support from local council tax support schemes or at higher risk of non-payment. Those who are self-employed did not receive support from the government

---

<sup>11</sup> Income from other SFCs within our broader measure is also much higher in London and somewhat higher in the rest of the South than in the North of England. In London, for example, such income accounts for 18.6% of non-schools revenue expenditure (on top of the 7.1% accounted for by the selected SFCs). The figures are 9.7% in the South East and 9.4% in the South West, compared with 7.9% in the North West, 6.9% in the North East and 5.5% in Yorkshire & the Humber.

<sup>12</sup> Non-food retail, restaurants and hotels, passenger transport, personal services, and arts and leisure services. Employment by detailed sector is only available by place of employment, not residence, so this is only a fully accurate measure of the potential impact on council tax payers if adult residents who are employees work in the same sectors as employees in their local area.

**Figure 5. Council tax revenues (% of non-schools revenue expenditure) in 2019–20 and share of adults who are employees working in affected sectors or are self-employed, by deprivation**



Note: By decile of deprivation based on average score of the overall Index of Multiple Deprivation (IMD 2019). (LHS) Council tax requirement from 2019–20 budgets as a percentage of non-schools revenue expenditure as of 2019–20. (RHS) Averages within deciles are weighted by non-schools revenue expenditure in 2019–20. Single- and upper-tier LAs only. Excludes City of London and Isles of Scilly.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

until late May, and may have become entitled to council tax support, or fallen behind in their council tax, in the meantime.

A clear pattern whereby less deprived areas have both a higher share of jobs in particularly affected sectors and a higher share of self-employment can be seen. Perhaps surprisingly, differences in labour market structures could therefore amplify the risk to less deprived LAs’ council tax revenues – although this finding is necessarily tentative, and more detailed analysis of the financial resilience of households in different LAs is warranted.

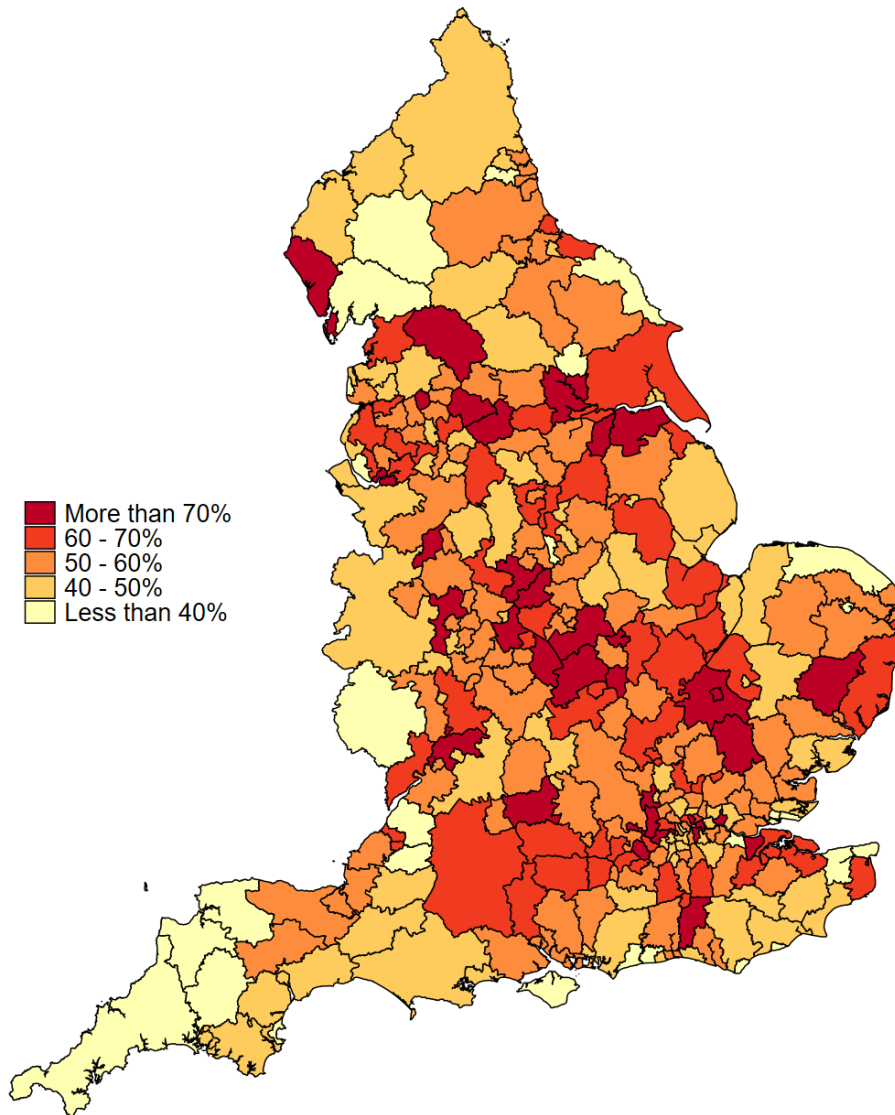
### Economic structure and business rates

Differences in economic structures could also affect the extent to which business rates revenues are at risk in different LAs. In particular, the government has provided the retail, hospitality and leisure sectors with 100% relief from paying business rates in 2020–21 and is compensating LAs for the loss of revenues with additional grant funding. Perhaps counter-intuitively therefore, LAs where a larger share of business rates revenues come from these sectors – which are particularly affected by lockdown – are less exposed to immediate shortfalls in business rates revenues. Instead, it is those LAs where a larger fraction of revenues come from other sectors that still have to pay rates – including

factories, offices and even airport operators – that may face greater financial risk in the short term.

On average, LAs still need to collect the equivalent of 55% of business rates revenues from businesses (compared with 87% before the additional coronavirus-related reliefs were announced).<sup>13</sup> This proportion does not vary systematically by deprivation level or urbanity, although LAs in the East Midlands are, on average, expected still to collect a higher fraction than LAs in the rest of the country, while those in the South West are, on average, expected still to collect a lower fraction, given the region’s dependence on the hospitality sector.

**Figure 6. Estimated share of business rates revenues to be collected in 2020–21**



Note: The fraction of an authority’s business rates revenues that it is still expected to collect from ratepayers in 2020–21 as opposed to being compensated for by government grants. Single- and lower-tier LAs only.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

<sup>13</sup> This is measured as the business rates revenues LAs are still due to collect, divided by business rates revenues plus section 31 grants provided by central government to compensate for reliefs it has granted.



---

The share of business rates revenues still to be collected varies significantly across individual LAs. For example, one in ten LAs with responsibility for collecting business rates<sup>14</sup> will have to collect less than 40% of total rates revenue, while another tenth will still have to try to collect 70% or more. As shown in Figure 6, those with the lowest shares are often seaside towns or tourist areas – such as Blackpool, Scarborough, Eastbourne and parts of the Lake District, Devon and Cornwall – or districts with major regional shopping centres such as Dartford (Bluewater), Gateshead (Metrocentre) and South Gloucestershire (Cribbs Causeway). Those with the highest shares include a number of LAs with major power stations, but also LAs with large airports such as Hillingdon (Heathrow) and Crawley (Gatwick).

In 2021–22 and beyond, the risk may instead be greater for those authorities with a higher share of revenues coming from the retail, hospitality and leisure sectors. This will depend on whether the government maintains significant business rates reliefs (and compensation for LAs) and the extent to which these sectors recover or are replaced by other economic activity. For example, changed shopping and socialising habits could mean LAs reliant on business rates revenues from the retail, hospitality and leisure sectors are at particular risk. On the other hand, a decline in international travel and increased domestic tourism could potentially benefit businesses in LAs covering coastal or tourist areas. It will also depend on when the government decides to reset the business rates retention scheme, at which point assessments of how much business rates revenues each LA can raise will be updated.

### **Investments and commercial income**

In recent years, a growing number of LAs have seen increased income from commercial activities – most notably in relation to commercial property. Authorities spent £6.6 billion between 2016–17 and 2018–19 to acquire commercial property – predominantly office space and retail property which they let to tenants for a commercial rent.<sup>15</sup> This represents both a capital asset and an income stream that may be at risk during the coronavirus crisis and any subsequent economic downturn. The returns from LAs that are members of the SIGOMA group discussed in Section 2 showed that, for this group of LAs at least, reductions in commercial income, including that from commercial property, are expected to be of a similar scale over the next year to reductions in council tax revenues, and only a little smaller than reductions in income from SFCs and retained business rates revenues.

Unfortunately, published budgets and out-turns data do not include information on the gross income from commercial activities that could be at risk. Instead, net profits and losses are recorded, which are likely to understate the income at risk, and could give a misleading impression: one LA may conduct a small amount of commercial activity but have a high profit rate, while another may conduct lots of activity but have made very little profit or even made a loss.<sup>16</sup> Individual LAs will have these data – as well as information on the capital values of any investment assets they have purchased – but such data should be collected and published centrally to aid accountability and risk assessment.

---

<sup>14</sup> In areas with two-tier local government, this is the lower-tier shire district.

<sup>15</sup> National Audit Office, 'Local authority investment in commercial property', 2020, <https://www.nao.org.uk/wp-content/uploads/2020/02/Local-authority-investment-in-commercial-property.pdf>.

<sup>16</sup> And even LAs with similar-sized commercial investments that have historically delivered similar returns might be invested in very different ways and therefore be differentially exposed to the coronavirus crisis.



---

Bearing this in mind, these net profit and loss figures do suggest that risk is likely to be very uneven across LAs.<sup>17</sup> For example, around half of LAs recorded a net profit or loss from commercial property of zero in 2018–19. While it is possible to make exactly zero profit or loss, doing so is unlikely. Thus many, if not most, of these LAs will likely have little or no exposure to commercial property investments, although they may have exposure to properties held specifically for the purpose of local economic development (such as regeneration schemes), income from which is often recorded as planning and development SFCs income. On the other hand, several LAs rely on such commercial property investments for very large amounts of income: in three cases (Eastleigh, Runnymede and Spelthorne), net income from commercial property investments exceeded non-schools revenue expenditure; and in a further six it exceeded 50% of this expenditure. Such LAs typically have high levels of reserves (perhaps because they consider their funding sources to be riskier) – although if capital values as well as rental income fall, these LAs could find themselves in a very difficult position.

Similarly, while income from interest and (non-property) investments accounts for less than 1% of non-schools revenue expenditure for the median single- or upper-tier LA and less than 3% for the median shire district, some LAs receive significant income from this source. For example, one in ten shire districts were forecast to receive interest and investment income equivalent to more than 15% of their non-schools revenue expenditure in 2019–20, and in several cases income from this source exceeded this expenditure.

### **Financial resilience: reserves and commitments**

The capacity of LAs to cope with the revenue risks discussed above will differ. There is no single measure of financial resilience, but as discussed in more detail in the appendix, the dashboard includes several indicators based on those included in CIPFA's financial resilience index. These include financial reserve levels and debt servicing costs as a share of non-schools revenue expenditure, as well as recent changes in reserves.

Table 6 shows how these vary by LA type. It shows that lower-tier districts in shire county areas have substantially higher reserves relative to their budgets, on average, than other types of LAs. This means that while their reliance on income from SFCs and above-safety-net business rates revenues means their revenues are likely riskier, on average they have relatively more financial resources to call upon if necessary. On the other hand, a higher share of their expenditure goes on debt servicing costs – interest payments and repayments of principal – on average, which may be less easy to adjust than other areas of spending unless debts can be refinanced on favourable terms. In contrast, while shire counties are less exposed to risk from falls in business revenues rates and SFCs incomes, on average they have the lowest ratio of reserves-to-expenditure.

---

<sup>17</sup> Similarly, the National Audit Office found that the acquisition of commercial property in recent years has been concentrated amongst a small group of authorities. Just under one in seven (49) authorities accounted for 80% of the spend between 2016–17 and 2018–19, while almost half of authorities acquired no new commercial property over the period. Shire districts and authorities in the South East were disproportionately active.

**Table 6. Financial resilience indicators, average by LA type**

LA type	Financial reserves, March 2020 (% of revenue expenditure)	Annual change in financial reserves		Debt servicing costs (% of revenue expenditure)
		2019–20	2017–18 to 2019–20	
London boroughs	41.1%	-0.9%	+3.3%	6.5%
Metropolitan districts	30.7%	-4.1%	+2.3%	9.6%
Shire counties	24.6%	-2.3%	+4.0%	5.3%
Shire districts	110.4%	-0.5%	+4.9%	12.8%
Unitary authorities	32.7%	-1.9%	+2.6%	7.7%
All England	35.8%	-2.0%	+3.4%	7.5%

Note: Financial reserves level is estimated as at end of March 2020, using 2018–19 out-turn and 2019–20 budget data, and includes unallocated and earmarked reserves. Debt servicing costs are for 2019–20. Both are as a proportion of non-schools revenue expenditure. Annual change between 2017–18 and 2019–20 is the compound annual growth rate. Averages within types are weighted by non-schools revenue expenditure or by initial level of reserves. Excludes City of London and Isles of Scilly.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

The table also shows that LAs' budgets for 2019–20 implied small reductions in reserve levels for each type of LA – although these follow increases in the previous two years, meaning reserve levels in March 2020 were forecast to be higher than in April 2017. The average planned withdrawal from reserves in 2019–20 was smallest for shire districts, and this group is also forecast to see the biggest increase in reserves since April 2017. Alongside higher reserve levels, this suggests shire districts may be more resilient to falls in income, on average.

There is significant variation in reserve levels and the use of reserves within groups of LAs, however. To illustrate this, Table 7 shows the number of LAs with reserves of different levels by LA type, while Figure 7 shows the relationship between reserve levels (on the horizontal axis) and the change in reserves since April 2017 (on the vertical axis).

Three LAs are forecast to have reserves equivalent to less than 10%, 37 the equivalent of between 10% and 20%, and 43 the equivalent of 20–30% of their non-schools revenue expenditure. At the other end of the scale, 82 are forecast to have reserves equivalent to more than 100%, and 20 reserves of more than 200%, of their non-schools revenue expenditure.

Mirroring the differences in average reserve levels shown in Table 6, no shire districts are forecast to have reserves of less than 20% of their revenue expenditure, and they make up 80 out of the 82 LAs with reserves of more than 100% of non-schools revenue expenditure. But Table 7 also makes clear big differences within LA types: three London boroughs are forecast to have reserves of less than 20% of non-schools revenue expenditure (and one less than 10%), while another three are forecast to have reserves of more than 75% of revenue expenditure (and one more than 100%). This means LAs in close proximity are

likely to have quite different abilities to cope with short-term falls in income and increases in spending.

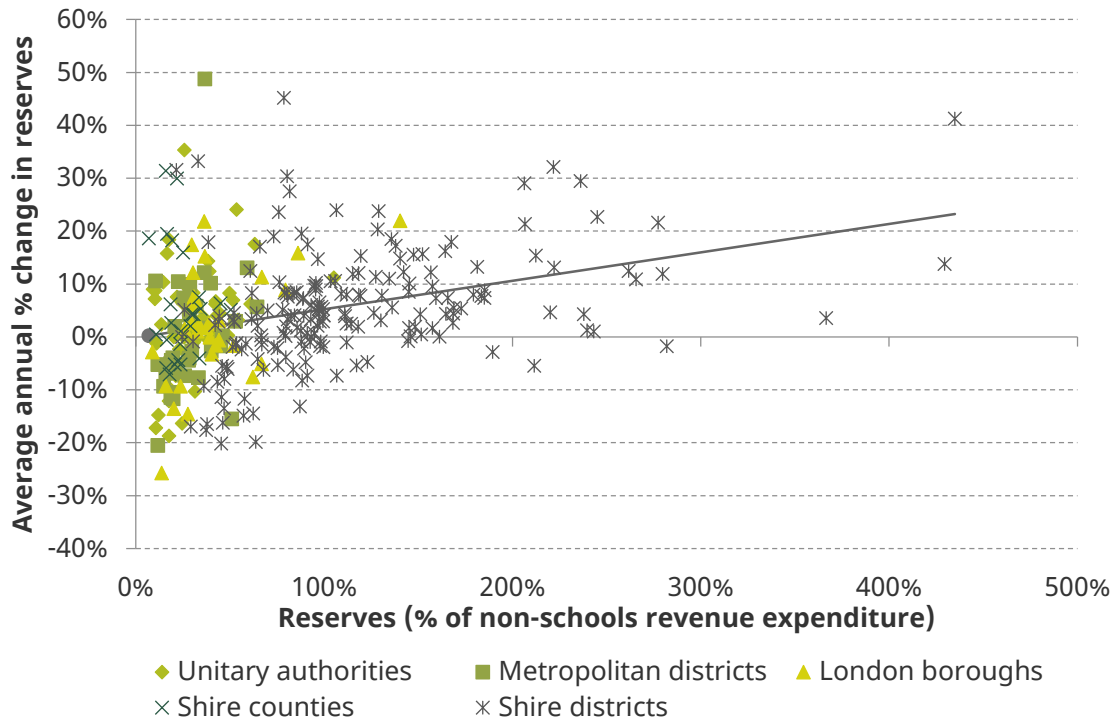
**Table 7. Number of LAs, by reserve levels and LA type**

Reserves as % of non-schools revenue expenditure	LBs	Mets	SCs	SDs	UAs
Under 10%	1	0	1	0	1
10-20%	2	11	9	0	15
20-30%	6	12	9	3	13
30-40%	12	6	4	6	11
40-50%	4	3	1	12	10
50-75%	4	4	1	26	5
75-100%	2	0	0	61	0
100-200%	1	0	0	60	1
More than 200%	0	0	0	20	0

Note: LBs = London boroughs; Mets = metropolitan districts; SCs = shire counties; SDs = shire districts; UAs = unitary authorities. Excludes City of London and Isles of Scilly.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

**Figure 7. Reserves (March 2020) and average annual change in reserves (April 2017 to March 2020), by LA**



Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

---

Figure 7 shows a modest (but statistically significant) positive relationship between reserve levels and changes in reserves over the last three years. To some extent, this is mechanical: those LAs increasing reserves over the last three years would have higher reserves now if they started with the same reserves, on average, as LAs drawing down reserves. But controlling for this, those LAs that had higher reserves in April 2017 are forecast to have increased them by more, on average, over the last three years.

The flipside of this positive correlation is that LAs with low levels of reserves are more likely to have been drawing down reserves in recent years. One possibility is that this indicates that their finances were already under more strain following a decade of austerity – again meaning they may find it harder to bear coronavirus-related falls in income and increases in spending. However, many factors can affect movements in LAs' reserve levels, including the build-up and draw-down of reserves to fund one-off expenses and investments, and changes in the amounts deemed necessary for risk-management purposes (e.g. LAs borrowing to buy commercial property may also choose to increase reserves levels due to the risk of reductions in rental or capital values). A full assessment of the risk associated with an individual LA's reserve levels and movements must therefore take into account a range of factors.

### Reserves, density and deprivation

Statistical analysis shows that LAs covering areas with denser populations typically hold higher levels of reserves, on average – which may be beneficial given their higher reliance on potentially vulnerable SFCs income. There is no statistically significant relationship between reserves levels and deprivation, although among single-tier LAs (i.e. London boroughs, metropolitan districts and unitary authorities) more deprived LAs have, on average, paid less into reserves over the last three years than less deprived LAs. Recall, however, that LAs serving more deprived communities rely less on income from SFCs and council tax revenues, which means falls in these sources would have a smaller effect on their overall funding levels.

### Correlation between revenue risks and financial resilience

The previous two subsections showed that lower-tier shire districts are more reliant on income from particularly risky SFCs and business rates, but in general have higher levels of financial reserves. This drives much of the positive correlation between reliance on these revenue streams and reserve levels shown in the top panel of Table 8.

However, the second panel shows that *within* shire districts, there is also a modest positive correlation between reserve levels and reliance on the selected SFCs, council tax and, to a lesser extent, business rates. Among districts, therefore, those LAs that are reliant on risky SFCs and local tax revenues tend to have somewhat higher reserve levels.

For single- and upper-tier LAs, there is a weak positive correlation between reserve levels and reliance on the selected SFCs and business rates. However, there is also a weak *negative* correlation between reserve levels and reliance on council tax revenues, driven by two factors: LAs in London tend to hold higher reserves and rely less on council tax (due to setting low tax rates); and shire counties tend to hold lower reserves and rely more on council tax.

More generally, despite the weak-to-modest positive correlations overall, there are LAs that rely significantly on income from at-risk SFCs and business rates and have relatively low levels of reserves. This is illustrated for shire districts and single- and upper-tier LAs in Figures 8 and 9 respectively, where LAs in the upper-right quadrant rely most on at-risk income while having below-average reserves.

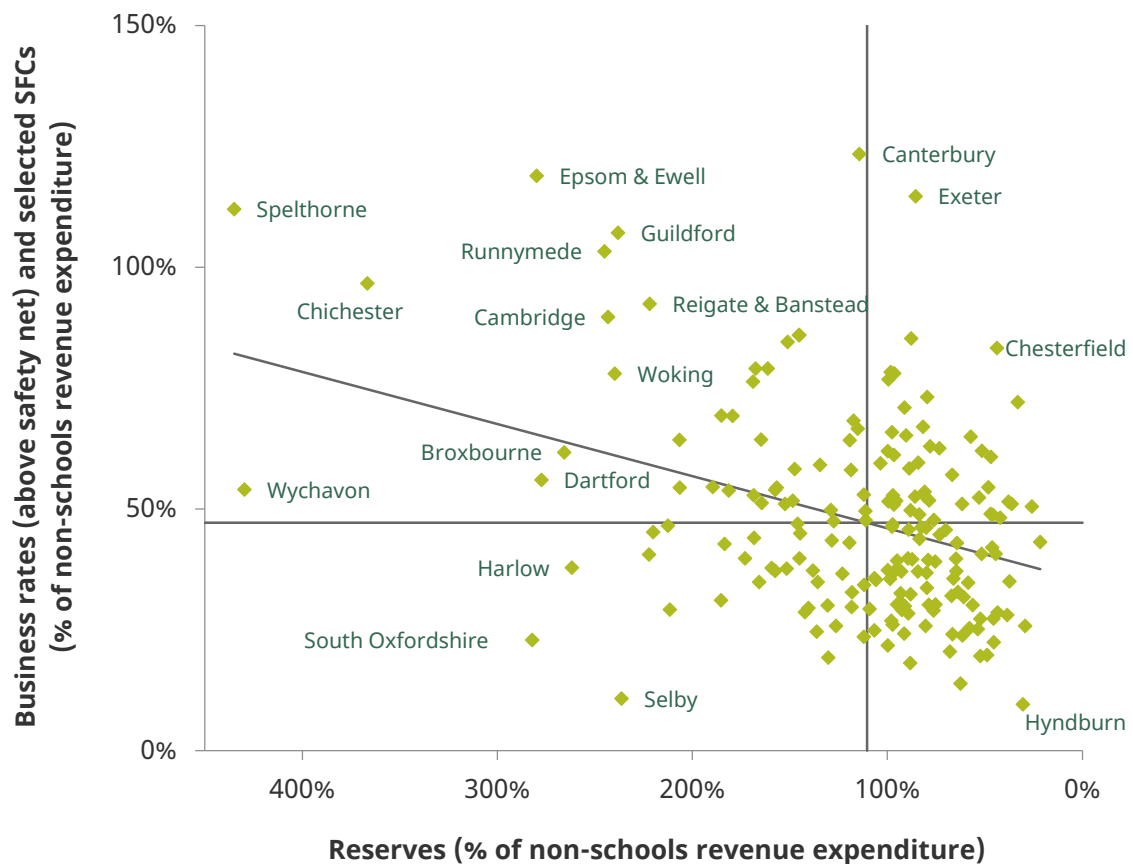
**Table 8. Correlations between dependence on different income streams and level of financial reserves (all measures as a % of non-schools revenue expenditure)**

	Selected SFCs	Council tax	Business rates (above safety net)	Financial reserves, March 2020
<b>All authorities</b>				
Selected SFCs	1.000			
Council tax	0.128	1.000		
Business rates	0.389	-0.140	1.000	
Financial reserves	0.589	0.103	0.525	1.000
<b>Within shire districts</b>				
Selected SFCs	1.000			
Council tax	0.386	1.000		
Business rates	-0.077	-0.037	1.000	
Financial reserves	0.313	0.351	0.186	1.000
<b>Within single- and upper-tier LAs</b>				
Selected SFCs	1.000			
Council tax	-0.070	1.000		
Business rates	0.078	-0.412	1.000	
Financial reserves	0.195	-0.163	0.134	1.000

Note: The table shows the correlation between income streams and level of financial reserves, all as a percentage of non-schools revenue expenditure.

Source: Figures for council tax are based on budgets for 2019–20 and business rates on NNDR1 returns for 2020–21; both are divided by non-schools revenue expenditure as of 2019–20. Figures for SFCs are from out-turns for 2018–19 and are divided by non-schools revenue expenditure as of 2018–19. Financial reserves are as in Table 6. The table excludes the City of London, the Isles of Scilly and Westminster. The first two of these are excluded due to their very small size and particular nature as sui generis authorities. Westminster is excluded because it is an extreme outlier among other LAs, with much higher reliance on SFCs and on above-safety-net business rates revenues, and much higher reserves, than other upper-tier LAs

**Figure 8. Financial reserves (horizontal axis) and income from above-safety-net business rates revenues and selected SFCs (vertical axis) as a % of non-schools revenue expenditure: shire districts only**



Note: Vertical line is at average reserves level, and horizontal line is average level of business rates and SFCs, for shire districts. Best-fit line is weighted by non-schools revenue expenditure in 2019–20.

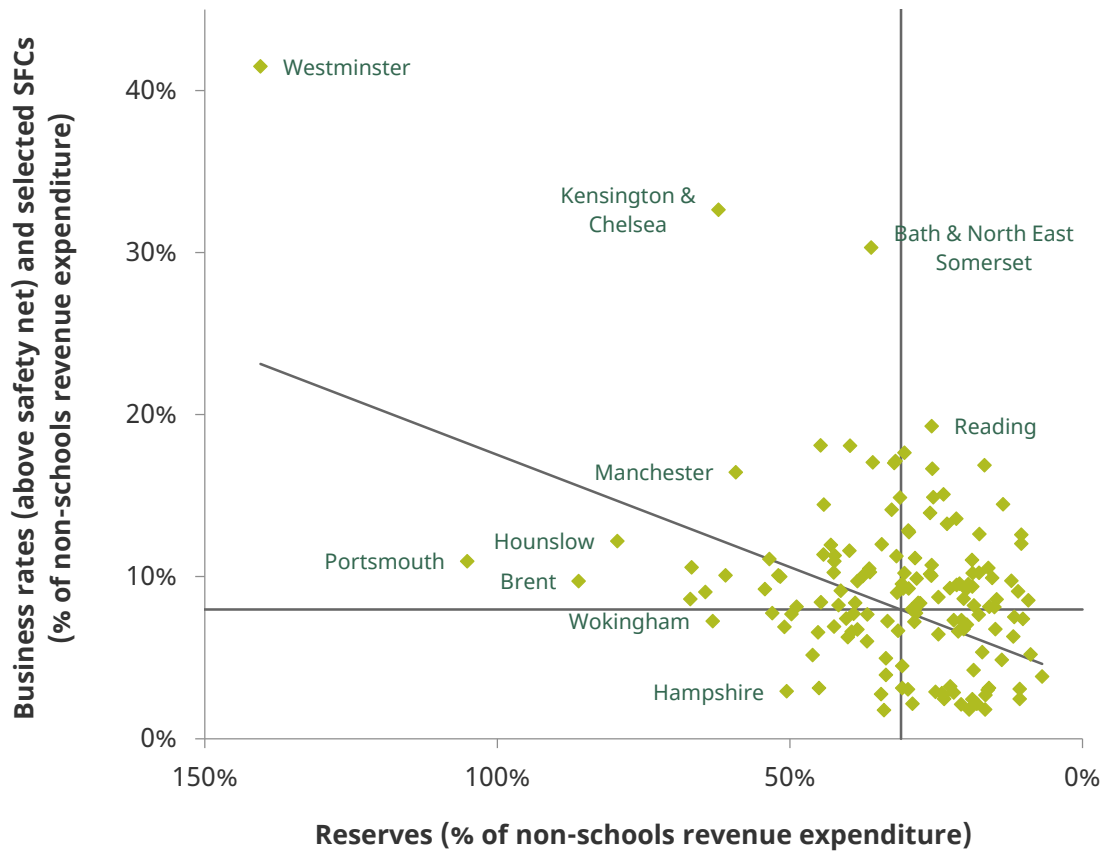
Source: See source to Table 8.

Figure 8, for instance, shows that most of the shire districts that are most reliant on income from the selected SFCs and business rates have above-average levels of financial reserves. However, there are also a number of LAs that are reliant on these sources of income and have relatively low levels of reserves, such as Chesterfield in Derbyshire.

Overall, three LAs (all shire districts) are among the bottom 30% of LAs in terms of reserves, but also among the top 30% in terms of reliance on the selected SFCs and above-safety-net business rates revenues. For 19 LAs, income from these SFCs and above-safety-net business rates revenues exceeds their forecast reserves as of March 2020. Shire districts account for 15 of these, and all of those where the difference is equivalent to more than 2.5 percentage points of non-schools revenue expenditures. Such LAs are found across the country, including Chesterfield and Newcastle-under-Lyme (in the Midlands), Adur, Eastbourne and Worthing (on the South East coast) and Exeter (in the South West).

As discussed above, a range of factors that cannot be reflected in these high-level indicators will affect the financial risk and resilience of specific LAs. Further analysis and scrutiny of the circumstances of particular LAs is therefore important.

**Figure 9. Financial reserves (horizontal axis) and income from above-safety-net business rates revenues and selected SFCs (vertical axis) as a % of non-schools revenue expenditure: single- and upper-tier LAs only**



Note: Vertical line is at average reserves level, and horizontal line is average level of business rates and SFCs, for single- and upper-tier LAs only. Best-fit line is weighted by non-schools revenue expenditure in 2019-20.

Source: See source to Table 8.

---

## 5. Health, housing and families

This section briefly examines how indicators of coronavirus-related risks linked to health, housing and family circumstances vary across LAs, and how they correlate with the revenue risks discussed in the previous section. It shows that ill health, homelessness, receipt of free school meals and interventions from children's social services are, perhaps unsurprisingly, more common in more deprived areas. If the coronavirus crisis harms already-vulnerable individuals and households the most, widening inequalities, LAs serving more deprived communities may therefore face particular increases in demands and costs in the medium to longer term, as well as the short term.

### Health, housing and family circumstances

Statistical analysis suggests that the coronavirus has killed proportionately more than twice as many people in the most deprived communities as in the least deprived communities, once age structure is controlled for.<sup>18</sup> Death rates are more than six times as high in major urban conurbations as in rural hamlets and villages in sparse settings. To the extent that there are costs directly associated with COVID-19 prevalence – such as reablement support for some of those discharged from hospital, or costs associated with staff sickness – more deprived and more urban LAs are likely to face higher costs.

But the coronavirus crisis will affect the cost of and demand for services in many other ways. There will be additional costs associated with safety measures, such as personal protective equipment and reduced caseloads per social care worker. And the pressures and knock-on effects of lockdown and social distancing could increase demand for a range of services including adults' and children's social care services and housing and homelessness prevention.

Individuals and households already suffering ill health, housing difficulties, family dysfunction and poverty are likely to be most at risk from harm, and in most need of additional support from LAs (as well as other public service providers). For example, Janke et al. (2020) find that rates of illness increase following economic downturns – especially for mental health conditions – with the biggest effects in areas that are more deprived, especially in former industrial areas.<sup>19</sup> Moreover, a range of early evidence on the impacts of COVID-19 finds: bigger negative impacts on mental health among those groups with poorer mental health to start with;<sup>20</sup> that children from poorer households are receiving less support from their schools, are spending less time studying and have home

---

<sup>18</sup> Office for National Statistics, 'Deaths involving Covid-19 by local area and socioeconomic deprivation: deaths between 1 March and 17 April 2020', 2020, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand17april>.

<sup>19</sup> K. Janke, K. Lee, C. Propper, K. Shields and M. Shields, 'Macroeconomic conditions and health in Britain: aggregation, dynamics and local area heterogeneity', IFS Working Paper WP20/12, 2020, <https://www.ifs.org.uk/publications/14807>.

<sup>20</sup> J. Banks and X. Xu, 'The mental health effects of the first two months of lockdown and social distancing during the Covid-19 pandemic in the UK', *Covid Economics: Vetted and Real-Time Papers*, 2020, issue 28, pp. 91–118, <https://cepr.org/content/twenty-eighth-issue-covid-economics-vetted-and-real-time-papers>.



---

environments less conducive to learning;<sup>21</sup> and more generally that a range of inequalities are at risk of widening.<sup>22</sup>

Figure 10 shows the correlation of various health-related factors, and Figure 11 the correlation of various housing- and family-circumstances-related factors, with general deprivation in an area. They show, in general, a positive correlation between risk factors and more general deprivation measures, with the most notable exception being share of the population aged 70 and over – a group at greater risk of COVID-19 and who therefore have had additional requirements placed on them during the lockdown, and who may be advised to avoid social contact for longer than the rest of the population. Older adults are more likely than average to live in rural areas, which generally have lower rates of deprivation.

Figure 10 shows little correlation between prevalence of coronary heart disease and hypertension – two other risk factors for severe COVID-19 – and general deprivation levels. But prevalence of these conditions is much greater among older population groups. Controlling for age structure, there is a strong positive correlation between prevalence of both and general deprivation. In other words, for a given age, residents of more deprived LAs are more vulnerable to the health effects of COVID-19, potentially increasing their need for support as they continue to socially distance in order to reduce their risk of disease. This suggests those LAs with both high levels of deprivation *and* older populations, including places such as Blackpool, County Durham, Lincolnshire, Northumberland and Redcar & Cleveland, could face particular costs if those more vulnerable to COVID-19 are asked or feel the need to socially distance for longer than the general population.

Health deprivation – which is based on estimates of life lost due to ill health and accidents, receipt of disability benefits, emergency hospital admissions and prevalence of mood and anxiety disorders – is very strongly correlated with overall deprivation levels, as is the prevalence of common mental health conditions. To the extent that those with pre-existing mental health conditions are most vulnerable to the anxiety and stress caused by the coronavirus crisis, LAs with more deprived populations could therefore be affected by increases in demand for mental health support. The highest levels of mental ill health are mostly in east London and major cities – areas with relatively young populations where the population looks less at risk from the direct health effects of COVID-19. Blackpool again features in the top quintile of prevalence, however.

**Note and source to Figure 10:**

Note: IMD Health, population aged over 70 and population density are for single- and lower-tier LAs; prevalence figures are for single- and upper-tier LAs only as this is the level at which data are available. Best-fit lines are weighted by population. Excludes City of London and the Isles of Scilly.

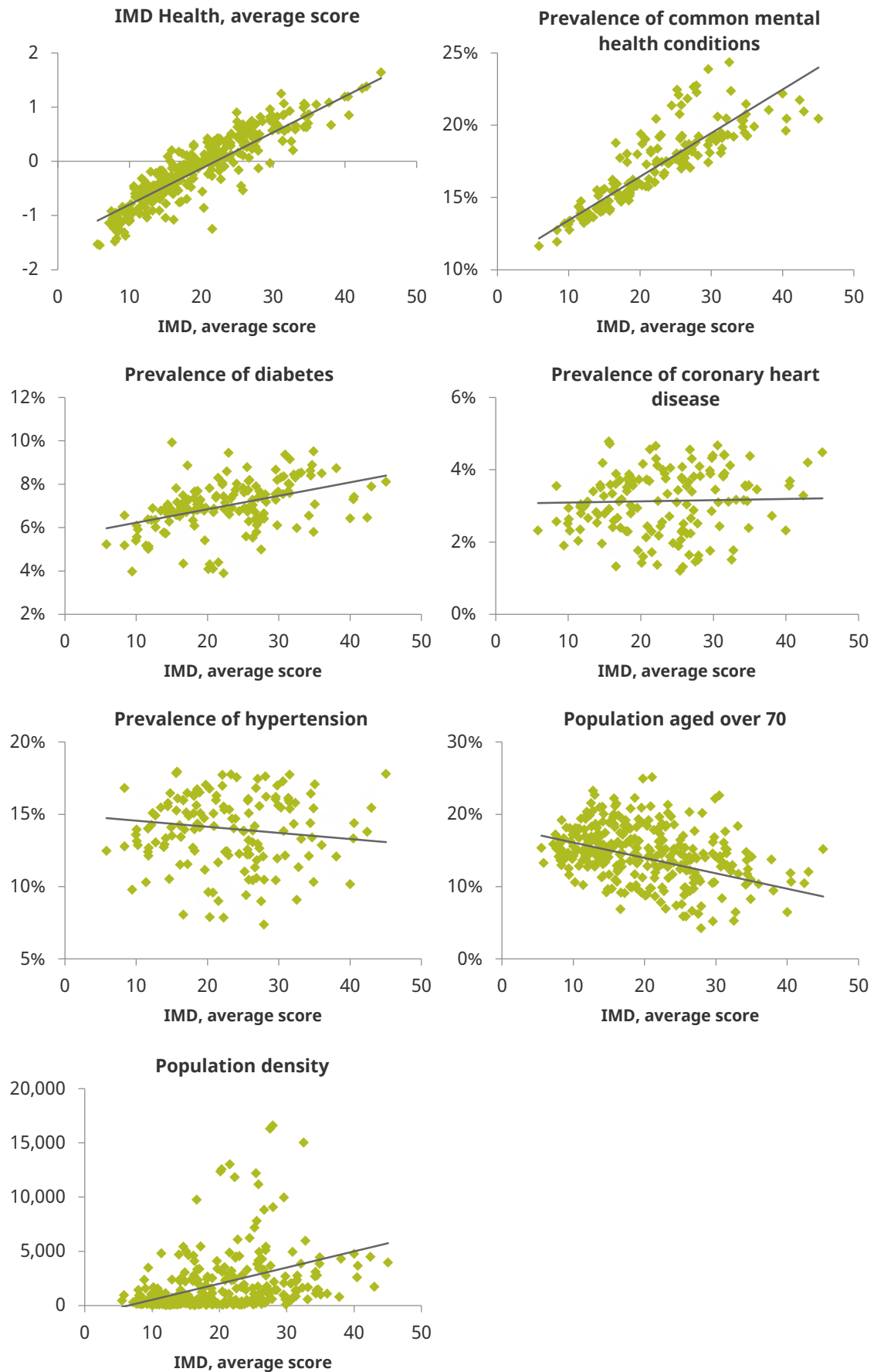
Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

---

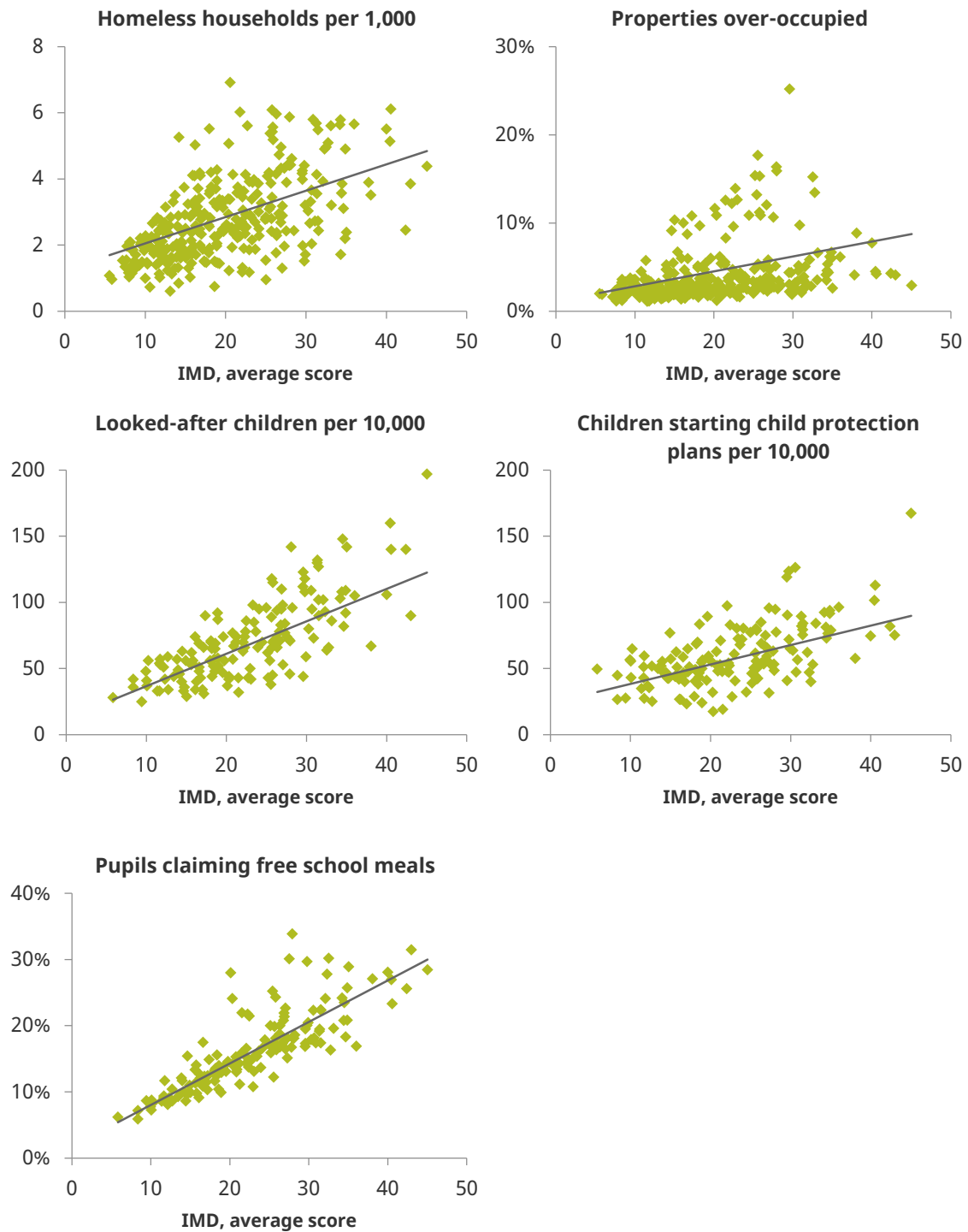
<sup>21</sup> A. Andrew, S. Cattan, M. Costa Dias, C. Farquharson, L. Kraftman, S. Krutikova, A. Phimister and A. Sevilla, 'Learning during the lockdown: real-time data on children's experiences during home learning', IFS Briefing Note BN288, 2020, <https://www.ifs.org.uk/publications/14848>.

<sup>22</sup> R. Blundell, M. Costa Dias, R. Joyce and X. Xu, 'COVID-19 and inequalities', IFS Deaton Review of Inequalities, 2020, <https://www.ifs.org.uk/inequality/covid-19-and-inequalities/>.

**Figure 10. Correlation between health-related risk factors and deprivation**



**Figure 11. Correlation between housing and family risk factors and deprivation**



Note: Housing indicators are for single- and lower-tier LAs; children's social care and free school meals are for single- and upper-tier LAs only. Best-fit lines are weighted by population. Excludes City of London and the Isles of Scilly.

Source: See dashboard ([www.ifs.org.uk/research/local-dashboard](http://www.ifs.org.uk/research/local-dashboard)) for sources.

---

Figure 11 shows strong correlations between deprivation and the proportions of children in the care of the local authority, subject to a protection plan or in receipt of free school meals. To the extent that children already in need of safeguarding or in poverty are at greater risk from the stresses and strains caused by lockdown, social distancing and the closure of schools services, more deprived LAs could face particular increases in demands.

A higher fraction of households are at risk of homelessness in more deprived LAs, and a larger share live in overcrowded accommodation where social distancing within the household may be problematic, and lockdown especially stressful. The latter is far more common in London – where house prices and rents are highest – than elsewhere in England, with approximately 12% of residential properties in London over-occupied, compared with less than 5% in the West Midlands, the region with the next-highest rate. Underlying these geographical patterns are big differences in rates of over-occupation for different ethnic groups. For example, fewer than 2% of white British households in London have more residents than rooms, compared with 30% of Bangladeshi households, 18% of Pakistani households and 16% of black African households.<sup>23</sup> Indeed, the only LAs outside London with rates of occupation above 10% are the nearby towns of Slough and Luton, both of which have large ethnic minority populations.

Risk of homelessness is much less concentrated in the capital, with the top ten LAs including areas as diverse as North Devon, Kingston-upon-Hull, Gloucester, Haringey and Blackburn.<sup>24</sup> While in the short term measures to prevent evictions may reduce the risk of additional households becoming homeless, it may be more challenging and costly to support households already homeless in current circumstances, including helping them move into more permanent accommodation. Households in more precarious housing situations may also be more adversely affected by lockdown and social distancing measures.

### The correlation with revenue risks

As discussed in Section 4, reliance on SFCs and especially council tax for revenues is greatest for LAs serving more affluent populations. As a result, those LAs where a range of population risk factors are elevated rely less than average on these sources of revenue.

For council tax, this is true for LAs where:

- prevalence of mental health conditions is higher;
- overall health deprivation is higher;
- more children are in care, subject to a protection plan and/or are receiving free school meals;

---

<sup>23</sup> L. Platt and R. Warwick, 2020, 'Are some ethnic groups more vulnerable to covid-19 than others?', IFS Deaton Review of Inequalities, <https://www.ifs.org.uk/inequality/chapter/are-some-ethnic-groups-more-vulnerable-to-covid-19-than-others/>.

<sup>24</sup> Risk of homelessness refers to the proportion of households assessed as homeless or threatened with homelessness, meaning they were owed a duty by the local authority. This is distinct from the prevalence of rough sleeping, which is included separately in the dashboard.

- 
- homelessness and overcrowding are greater, at least in areas with single-tier government. (In shire district areas, the relationship is reversed, reflecting lower rates of overcrowding and homelessness in shire areas in the North and Midlands than in the South of England.)

For SFCs income, it is true for LAs where:

- prevalence of coronary heart disease, diabetes and hypertension is higher;
- prevalence of mental health conditions is higher;
- overall health deprivation is higher;
- more children are in care and/or subject to a protection plan (although these relationships are at the border of statistical significance).

This suggests LAs with populations that are likely more vulnerable to the stresses and strains of lockdown, and hence could be expected to see particular increases in service demands and challenges, are typically less exposed to reductions in income from SFCs and council tax.

However, LAs where a higher share of the population is aged 70 or over rely more on council tax. If council tax revenues are particularly badly affected, and the over-70s are asked or choose to continue social distancing, potentially necessitating additional support from LAs, these LAs would be at greater financial risk.

---

## 6. Conclusion

This report has examined the relative financial risk facing and financial resilience of different English local authorities, drawing on the indicators included in our new coronavirus risk dashboard.

Such analysis can only take you so far. The circumstances of different LAs will vary in ways that are not captured in the indicators we have collated, or that are more fundamentally hard to measure (such as quality of local decision-making or potential exposure to very specific shocks). But several suggestive findings are worth emphasising.

First, both financial risk and resilience appear to vary very significantly across LAs. This is especially true for smaller shire district councils, which on average are most reliant on sales, fees and charges from culture, parking, planning and trade waste schemes and on above-safety-net business rates revenues. For example, while one in ten receives SFCs from the aforementioned services equivalent to less than 9% of their revenue expenditure, another tenth receives the equivalent of more than 55% of revenue expenditure. Similarly, above-safety-net business rates revenues are equivalent to less than 8% of revenue expenditure in one in ten shire districts, in another tenth they are equivalent to more than 30%. And while three LAs have reserves equivalent to less than 10% of their non-schools revenue expenditure, 20 have reserves of more than 200%.

Second, those most reliant on riskier revenue streams in general have higher levels of financial reserves. For example, shire district councils have reserves averaging 110% of their revenue expenditures; and within both shire districts and other types of LA, there is a modest positive correlation between reserve levels and reliance on the aforementioned SFCs and above-safety-net business rates revenues. But this correlation is far from perfect, and there are LAs that rely significantly on risky revenue sources and have low levels of reserves. For example, for 19 LAs, income from these SFCs and above-safety-net business rates revenues exceeds their forecast reserves levels.

Third, to the extent that the coronavirus crisis has a bigger impact on income than on costs (as suggested by returns from a range of urban LAs, at least) in the short term, LAs serving more affluent communities are likely to be more adversely affected than those serving less deprived communities. This reflects the fact that they rely more on income from at-risk SFCs and especially council tax than their more deprived counterparts. For example, whereas council tax funds 69% of non-schools revenue expenditure in the tenth of LAs with the lowest levels of deprivation, it funds 32% for the tenth of LAs with the highest levels.

The longer-term effects depend on how quickly the economy recovers and residents' and visitors' behaviour returns to something more normal, and the extent to which current experiences cause longer-term harm. It is notable that LAs serving deprived areas have populations with characteristics that could mean they are more adversely impacted in terms of their health, housing and family circumstances. More deprived LAs might therefore be more likely to see increases in the demand and need for housing, social care and special educational services as families struggle with the aftermath of lockdown and potentially ongoing social distancing measures, even if the economy bounces back relatively strongly. Thus, while LAs serving more affluent communities may be hit harder by the impact of the coronavirus crisis on revenues, LAs serving more deprived

---

communities seem likely to face the biggest costs and challenges in dealing with the medium- to longer-run effects on communities and households.

The government will need to take these issues into account if it is best to support LAs. LAs that are more reliant on risky revenues may need greater financial support in the short-to-medium term, while LAs where population characteristics make them more vulnerable to the stresses and strains of lockdown may have elevated spending needs for a significantly longer period. The potential for big differences in impacts on costs and incomes, and significant variation in the reserves LAs hold, mean the government should give serious consideration to relaxing temporarily the rules that prevent LAs from borrowing to cover day-to-day spending. If it does not do this, it will either have to provide more funding to the sector as a whole than is necessary, provide specific funding for LAs that are particularly struggling, or risk more LAs having to issue so-called section 114 notices, imposing immediate restrictions on all but the most essential expenditure. And if the government will not cover the full costs LAs are incurring as a result of the impacts of and their responses to the coronavirus crisis, there is a strong case to give them the financial flexibility to do so themselves.

---

# Appendix. Detailed information on the dashboard risk indicators

## COVID-19 cases and deaths

The social and economic measures taken in response to the coronavirus crisis mean that LA finances will be affected by many factors in addition to the actual prevalence of COVID-19 (the disease caused by coronavirus) in each area. Nonetheless, the greater the actual incidence of disease, the more support LAs may be required to provide to those directly affected by COVID-19, such as support to return home after discharge from hospital. It may also increase the costs of staffing some services, as more staff fall ill or are required to self-isolate with their families. It may also affect personal protective equipment (PPE) requirements if additional equipment is deemed necessary when interacting with people with a confirmed or suspected infection.

- **Number of lab-confirmed cases per 1,000 population.** Although an underestimate of the true number of cases of COVID-19, this cumulative total of lab-confirmed cases is a proxy for the total incidence of disease in each LA since testing began.
- **Number of deaths in 2020 involving COVID-19 per 100,000 population.** This measures the number of deaths occurring per 100,000 population in 2020 in which COVID-19 was mentioned on the death certificate, whatever the place of death, based on provisional Office for National Statistics (ONS) statistics on death registrations. This is a proxy for the incidence of more severe disease since the beginning of 2020, and is a cumulative measure, so may not reflect current death rates.
- **Proportion of deaths in 2020 involving COVID-19.** This measures the proportion of all deaths occurring in 2020 in which COVID-19 was mentioned on the death certificate, and is also a proxy for the incidence of more severe disease in an area since the beginning of 2020.

## Health vulnerabilities

Different age structures and underlying health mean the populations in some areas are more vulnerable to suffering serious illness if infected with COVID-19. Even if they do not fall ill with COVID-19, people in vulnerable categories may require more support from LAs in the short term, such as deliveries of food packages, and observing guidance in relation to those who are clinically vulnerable is likely to increase the cost of delivering existing services. Populations that are more vulnerable may be asked or feel the need to observe social distancing measures for longer, meaning risks to LAs' spending and revenue persist for longer, and demand for some support services may increase.



- 
- **Proportion of population aged over 70, 2020.** Older adults are more at risk of severe COVID-19 and may be asked to socially distance (or feel the need to do so) for longer.<sup>25</sup>
  - **Prevalence of underlying health conditions: coronary heart disease; diabetes; and hypertension.** These measure the proportion of the population with health conditions associated with greater risk of severe COVID-19. The government has identified 1.5 million extremely vulnerable adults with conditions that put them at exceptional risk, but information on the number of such individuals by LA is not available.
  - **Health and Disability Deprivation – average score.** This is the LA’s average score for the health and disability sub-index of the Index of Multiple Deprivation (IMD). It measures the average degree of health-and-disability-related deprivation of small neighbourhoods (lower super output areas or LSOAs) in an LA, which is likely to be correlated with health-related effects of the coronavirus pandemic and associated social distancing measures.
  - **Health and Disability Deprivation – proportion of LSOAs in most deprived 10% nationally.** This measures the share of LSOAs within an LA that are amongst the most deprived 10% of LSOAs nationally, using the health and disability sub-index of the IMD. This may be of relevance if impacts are particularly severe in areas with the worst and most concentrated health-and-disability-related deprivation.
  - **Population density.** Higher population density is likely associated with greater risk of transmission of coronavirus, and hence longer-lasting social distancing measures or behaviours. For example, greater use of public transport in high-density areas may make it more difficult for normal commuting to resume.
  - **Prevalence of common mental health disorders.** This estimates the proportion of the population who have any type of mental health disorder, including depression or anxiety. This differs from the other health indicators, which focus on vulnerability to COVID-19, and is instead intended as a measure of vulnerability to the mental health impacts of the crisis, lockdown and social distancing.

## Housing and family vulnerabilities

Beyond their vulnerability to the disease itself, other socio-economic factors may mean the populations of different LAs are more or less impacted by the crisis and social distancing measures, driving demands for key services provided by LAs. Some of these vulnerabilities may also lead to greater spending needs in the longer term, if lockdown and social distancing measures exacerbate existing inequalities between families and increase the risk of abuse or harm. The temporary closure of face-to-face services may also delay the identification of early warning signs, making eventual interventions by different LA-provided services more difficult and costly.

- **Average number of rough sleepers per 100,000 residents.** This measures the number of people sleeping rough on a single night in autumn, on average across the three

---

<sup>25</sup> In one respect, having a higher fraction of people aged over 70 may be associated with lower financial risk: they are less likely to be economically affected by the coronavirus crisis, and therefore they may be less likely to default on their council tax liabilities.

---

years 2017 to 2019. Authorities have been tasked with ensuring rough sleepers are provided with accommodation in order to reduce risks to their and others' health. Higher rates of rough sleeping will be associated with higher costs for such action.

- **Households assessed as homeless or threatened with homelessness per 1,000 households.** This is measured as the average over the four quarters between October 2018 and September 2019. It may be more challenging and costly to support such households in current circumstances, including helping them move into more permanent accommodation. Households in more precarious housing situations may also be more adversely affected by lockdown and social distancing measures – although measures to prevent evictions are likely to have reduced the risk of additional households becoming homeless.
- **Proportion of properties that were over-occupied in 2011.** This census-based measure counts the proportion of properties with fewer bedrooms than the 'required' number for the number of people living there. It may increase the risk of transmission of COVID-19 as overcrowding likely makes it harder to maintain self-isolation measures within the household. In addition, it may increase the pressure of lockdown on family relationships and mental health.
- **Looked-after children per 10,000 children.** This measures the proportion of children in an area who were in the care of the LA in 2018–19, including those fostered with friends, family or other foster carers and those in residential care. Costs associated with this care may be increased, and its effectiveness decreased, in a context of lockdown and social distancing. The most common reason for a child to be looked after is a risk of abuse and neglect.<sup>26</sup> High rates of looked-after children may be associated with broader vulnerability of families to negative impacts of lockdown and social distancing measures, increasing service demands and costs in the longer term.
- **Rate of children starting child protection plans in the year per 10,000 children.** This measures the proportion of children in an area who were placed on an official child protection plan in 2018–19. Costs associated with this care may be increased, and its effectiveness decreased, in a context of lockdown and social distancing. High rates of children subject to protection plans may be associated with broader vulnerability of families to negative impacts of these measures.
- **Percentage of state school pupils claiming free school meals.** The additional cost of providing children entitled to free school meals with equivalent support if they are not in school are being covered by central government.<sup>27</sup> However, this variable has been included as a proxy for broader vulnerability of families to negative impacts of lockdown and associated social distancing measures.

---

<sup>26</sup> Department for Education, 'Children looked after in England including adoption: 2018 to 2019', 2019, <https://www.gov.uk/government/statistics/children-looked-after-in-england-including-adoption-2018-to-2019>.

<sup>27</sup> Department for Education, 'School funding: exceptional costs associated with coronavirus (COVID-19) for the period March to July 2020', 2020, <https://www.gov.uk/government/publications/coronavirus-covid-19-financial-support-for-schools/school-funding-exceptional-costs-associated-with-coronavirus-covid-19-for-the-period-march-to-july-2020>.

- 
- **IMD – average score.** This is the LA’s average score for the overall IMD. It measures the average degree of deprivation across a range of dimensions (crime, education, employment, environment, health, housing, income) of LSOAs in an LA. A higher average score may be associated with bigger short- and long-term impacts of the lockdown and social distancing measures on current and future need for services provided by LAs.
  - **IMD – proportion of LSOAs in most deprived 10% nationally.** This measures the share of LSOAs within an LA that are amongst the most deprived 10% of LSOAs nationally. This may be of relevance if impacts are particularly severe in areas with the worst and most concentrated deprivation.

## Revenue risks

LAs fund the services they provide using a range of income streams including local taxes, SFCs and grants from central government, which will vary in the extent to which they are likely to be affected by the coronavirus crisis. Some income streams may be delayed – for instance, council tax payments or commercial rental payments which may be deferred but potentially collected at a later date, possibly via enforcement action – whereas other income losses, such as on car parking fees, will not be recoverable.

### Council tax

The largest single revenue source for most LAs is council tax, paid by occupants of residential properties and generally paid in instalments over the course of a year.

- **Council tax requirement as a proportion of revenue expenditure.** A stable tax base and high collection rates (97% is collected in-year, and close to 99% is collected after enforcement action) mean that, in general, this is seen as a relatively safe source of revenue. However, the replacement in 2013 of the central-government-funded system of council tax benefit with locally funded schemes providing discounts for those with low incomes, as well as the potential for non-payment by others seeing falls in their income, means LAs heavily reliant on council tax (as opposed to central government funding) are potentially subject to greater financial risk as a result of the coronavirus crisis. Our measure of council tax reliance is council tax revenues as a share of an adjusted version of revenue expenditure, which excludes expenditure funded by grants specifically for schools.<sup>28</sup>
- **Proportion of adults who are employees in directly affected sectors.** This measures the number of employees in a sector that has largely or entirely shut down during the lockdown (non-food retail, restaurants and hotels, passenger transport, personal services, and arts and leisure services) divided by the population aged 16+.<sup>29</sup> Despite government support via the Coronavirus Job Retention Scheme (CJRS), these individuals are likely to face especially high risks of a fall in income as well as uncertain future

---

<sup>28</sup> We exclude expenditure funded by ring-fenced grants for schools as LAs are mandated to transfer this funding to schools. We use this adjusted measure of revenue expenditure as the denominator in our indicators for reliance on business rates, SFCs and commercial income, as well as reserves, debt servicing costs and social care expenditures.

<sup>29</sup> R. Joyce and X. Xu, 'Sector shutdowns during the coronavirus crisis: which workers are most exposed?', IFS Briefing Note BN278, 2020, <https://www.ifs.org.uk/publications/14791>.

---

employment prospects, meaning they may be especially likely to be unable to pay their usual council tax bills.

To best capture the potential impact on council tax revenues, the number of people employed in an area in these sectors is taken as a proportion of all adults, rather than all employed people, to recognise that having a higher share of people not depending on employment to meet their council tax bills (e.g. more retired people) may be protective of council tax revenues. Also, employment by detailed sector is only available by place of employment, not residence, so this measure is only fully accurate if adult residents of an area who are employees work in the same sectors as employees working in their local area. This is unlikely to be strictly true, but should be a reasonable approximation, at least outside London.

- **Proportion of adults who are self-employed.** This measures the proportion of adults (aged 16+) resident in an area reporting they are self-employed; as above, this is as a proportion of all adults, rather than all employed people, to better reflect the proportion of all potential council tax payers who depend on self-employment to meet their bills. Many self-employed people who have lost income due to the pandemic are eligible for a grant through the government's Self-Employment Income Support Scheme (SEISS), paid in late May. The support they were eligible to apply for via the benefit system while waiting for this grant was less generous than the support available to most employees through the CJRS, which may mean they were more likely to fall into council tax arrears in the short term. Medium- to longer-term impacts are less clear though, as the SEISS is more generous than the CJRS for many, but excludes several groups such as those earning less than half their income from self-employment, those who have recently become self-employed and those with income over £50,000 a year.<sup>30</sup>

### Business rates

Since 2013–14, LAs also retain a proportion of the business rates collected from the occupiers of non-domestic properties in their area. In recent years, this has allowed LAs to benefit from significant real-terms growth in this revenue source. However, the economic effects of the coronavirus, lockdown and social distancing measures may increase non-payment and arrears, and lead to longer-run declines in the tax base if, for example, shopping, socialising and working habits change.

- **Growth above safety net as proportion of revenue expenditure.** This measures how dependent LAs are on business rates revenues that could potentially be lost. Not all business rates revenues are at risk (at least from the perspective of an individual LA): a safety net operates which prevents the retained revenues falling below 92.5% of the real-terms amount they were assessed to need in 2013–14. The further LAs are above this threshold, the more revenue that is at risk before the safety net kicks in.
- **Proportion of business rates revenues not covered by government-funded reliefs.** The government is providing 100% rates relief for 2020–21 for businesses in retail, hospitality, leisure and a few other sectors, and compensating LAs for lost revenue with additional grant funding. Thus, in the short term, business rates that were due to be paid by these sectors are actually a safer source of income than business rates still due

---

<sup>30</sup> S. Adam, H. Miller and T. Waters, 'Income protection for the self-employed and employees during the coronavirus crisis', IFS Briefing Note BN277, 2020, <https://www.ifs.org.uk/publications/14786>.

---

from other sectors – such as factories, offices and transport facilities (including airports) – which may also be affected somewhat by the coronavirus crisis. This indicator therefore measures the fraction of business rates revenues that is not being compensated for by government grants, and that LAs are still expected to collect. Note that if changes to shopping and socialising habits persist into 2021–22 and later years, and the government does not extend its rates relief package, LAs where retail, hospitality and leisure occupiers make up a larger share of the tax base may be at more rather than less financial risk.

- **LA is in a business rate pool, 2020–21.** Many LAs (70% in 2020–21) are part of pooling arrangements with neighbouring LAs. Usually, this will allow them to retain additional revenue because it lets them reduce ‘levies’ certain LAs face on growth in their business rates. However, safety nets also operate at the level of the pool as a whole, and that means if an individual LA sees its business rates revenues below the safety-net threshold but the pool as a whole does not, the government-funded safety net does not apply. Thus, being a member of a pool increases the risk of large falls in business rates income.

### Sales, fees and charges (SFCs)

In addition to local taxes and grant funding from central government, LAs raise income from SFCs for particular services. The coronavirus lockdown and social distancing measures may be expected to significantly reduce SFCs income, especially from services closely related to retail and hospitality, travel and tourism, and construction and development. The dashboard therefore includes gross SFCs income for four key service areas, measured as a percentage of overall revenue expenditure. It also includes a measure of total gross SFCs income from a wider range of service areas, which may better indicate the relative risk to income if income from a much broader range of services is impacted. Gross rather than net income has been used as while income is at risk, costs may be difficult to reduce (e.g. LAs are still expected to pay staff and honour long-term contracts).

- **SFCs from off-street parking, penalty charge notices and bus lane enforcement as a proportion of revenue expenditure.** This has been included because fewer people are travelling and visiting town and city centres for work and shopping.
- **SFCs from planning fees as a proportion of revenue expenditure.** This has been included as the number of planning applications may fall due to reductions in property transactions and commencement of building projects and because of uncertainty about future economic conditions and demand for commercial space, for example.
- **SFCs from culture and leisure services as a proportion of revenue expenditure.** Cultural and leisure facilities are closed and, even when reopened, visits may be reduced as residents and visitors continue voluntarily to socially distance.
- **SFCs from trade waste as a proportion of revenue expenditure.** With many businesses such as restaurants, bars, hotels and non-essential retailers closed, the volume of trade waste is likely to be reduced.

- 
- **SFCs from all services (excluding schools and social care) as a proportion of revenue expenditure.** It is possible that SFCs income from a much broader range of council services than the four specific service areas highlighted will be impacted.

### Commercial income

Many LAs also raise income from their commercial activities, including in relation to commercial property, and this income may be at risk if investments are affected by the lockdown and social distancing measures. Published budgets and out-turns data do not include information on the gross income from commercial activities that could be at risk. The dashboard therefore includes net income from three different sources, measured as a proportion of overall revenue expenditure, although this is likely to understate the income at risk.

- **Interest and investment income as a proportion of revenue expenditure.**
- **Commercial property income surplus as a proportion of revenue expenditure.**
- **Other (non-property) commercial income surplus as a proportion of revenue expenditure.**

### Financial resilience

LAs will differ in the degree to which they can cope with increases in costs of service provision and reductions in income. The dashboard includes a series of indicators of LAs' financial resilience, based on those included in CIPFA's financial resilience index.<sup>31</sup>

- **Estimated reserves level as a proportion of revenue expenditure.** This is the forecast general allocated and unallocated reserves at 31 March 2020 measured as a proportion of revenue expenditure. Higher reserves mean LAs have greater scope to offset increases in costs or reductions, at least for a period, by drawing down reserves.
- **Estimated percentage change in level of reserves in year to March 2020.** If LAs were forecasting that they would draw down reserves in 2019–20, this could indicate that their spending and revenues were already under pressure. However, it could also reflect the planned use of reserves for one-off costs and investments, rather than recurrent costs, so users may want to interpret this measure in conjunction with a more detailed assessment of how reserves have been used.
- **Estimated average annual percentage change in level of reserves in the three years to March 2020.** This measures the annual average change in reserves over the last three years, in order to smooth out the effects of using reserves for one-off costs and investments in 2019–20.
- **Budgeted external interest payments and repayment of principal as a proportion of revenue expenditure.** Unless debt can be refinanced on more favourable terms, debt servicing costs may be harder to adjust than other areas of spending.

---

<sup>31</sup> <https://www.cipfa.org/services/financial-resilience-index>.

- 
- **Budgeted spending on adults' and children's social care as a proportion of revenue expenditure.** Single-tier LAs and upper-tier county councils have statutory duties to support adults and children requiring social care services. While the Coronavirus Act 2020 relaxed these duties in the case of adult social care services,<sup>32</sup> LAs must still support vulnerable adults and children, and the coronavirus crisis is likely to have increased demands for and costs of these services in other ways – including staffing and protective equipment costs. A higher share of spending on these services may therefore indicate less scope to reallocate resources to meet these needs and address these costs, and less scope to absorb reductions in income.

## Funding

As discussed in Section 2, the government has provided a range of additional funding to LAs to help them address the costs of the coronavirus crisis and support residents. The dashboard includes figures in per-resident and proportional terms. They have been included for reference purposes only, and are not risk indicators.

- **Total allocation from £3.2 billion COVID-19 response fund, per capita.**
- **Allocation from £3.2 billion COVID-19 response fund, as a proportion of revenue expenditure.**<sup>33</sup>
- **Allocation from £500 million hardship fund, per capita.**
- **Allocation from £500 million hardship fund, as a proportion of revenue expenditure.**

---

<sup>32</sup> D. Foster, 'Coronavirus: local authorities' adult social care duties (the Care Act easements)', House of Commons Library Briefing Paper, 2020, <https://commonslibrary.parliament.uk/research-briefings/cbp-8889/>.

<sup>33</sup> As throughout this appendix, we use non-schools revenue expenditure in the denominator.