DEBATE DISCOVER DISCUSS

Celebrate the social sciences

7-15 November

#ESRCFestival

COVID-19 and councils: impacts, responses and recovery

David Phillips (IFS)
Nicola Morton (LGA)
Richard Watts (Islington Council)
Kamal Panchal (LGA)
Andrew Carter (Centre for Cities)

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Outline

- How and why has Covid-19 affected councils’ finances?
- What is the medium-term outlook for funding?
- What big issues and choices loom?
A near-decade of austerity…

Source: Figure 2.5. of Harris, Hodge and Phillips (2019) ‘English local government funding: trends and challenges in 2019 and beyond’
A near-decade of austerity…

The medium-term funding outlook

Source: Figure 2.5. of Harris, Hodge and Phillips (2019) ‘English local government funding: trends and challenges in 2019 and beyond’
... was due to end

4.3% above-inflation increase in funding was planned for this year:
• Undo 1/3 of cuts to overall spending
• Undo 1/5 of cuts to spending per person

Source: Figure 2.5. of Harris, Hodge and Phillips (2019) ‘English local government funding: trends and challenges in 2019 and beyond’
But...
... a new perfect storm
Economic impacts...

Time spent in different places

- Retail&Leisure
- Transit
- Work

Source: Google Mobility Data, UK.

Numbers on Furlough (millions)

Source: HMRC.

Number of employees (July 2014 = 100)

Source: ONS.

COVID-19 and councils
... differ across the country...

Source: Davenport and Zaranko (2020).

**COVID-19 and councils**

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...and risk & resilience varies

<table>
<thead>
<tr>
<th>Indicator List</th>
<th>Indicator value</th>
<th>Decile - within type (out of 33 authorities)</th>
<th>Decile - all LAs (out of 339 authorities)</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue risk - Sales, Fees and Charges</strong></td>
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<tr>
<td>SFCs from off-street parking, PCNs and traffic</td>
<td>2%</td>
<td>9</td>
<td>7</td>
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<td>control as proportion of revenue expenditure, 2018</td>
<td>1%</td>
<td>4</td>
<td>6</td>
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<td>SFCs from planning as proportion of revenue</td>
<td>0%</td>
<td>10</td>
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<td>expenditure, 2019</td>
<td>0%</td>
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<td>SFCs from culture and related services as</td>
<td>22%</td>
<td>6</td>
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<td>proportion of revenue expenditure, 2018</td>
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<td>SFCs from trade waste as proportion of revenue</td>
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<td>expenditure, 2018</td>
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<td>SFCs from all services (excluding schools and social</td>
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<td>care) as proportion of revenue expenditure, 2018</td>
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<td><strong>Revenue risk - Commercial Income</strong></td>
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<td>Interest and investment income as proportion of</td>
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<td>revenue expenditure, 2019</td>
<td>3%</td>
<td>2</td>
<td>3</td>
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<td>Commercial property income surplus as proportion</td>
<td>0%</td>
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<td>of revenue expenditure, 2018</td>
<td>0%</td>
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<td>Other (non-property) commercial Income surplus as</td>
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<td>proportion of revenue expenditure, 2018</td>
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<td><strong>Financial resilience and commitments</strong></td>
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<tr>
<td>Estimated reserves (excl social and pub health) as</td>
<td>9%</td>
<td>1</td>
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<td>proportion of revenue expenditure, Mar 2020</td>
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<tr>
<td>Percentage change in level of reserves in year to</td>
<td>22%</td>
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<td>March 2020</td>
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<td>Average percentage change in level of reserves,</td>
<td>-3%</td>
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<td>last 3 years</td>
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<td>External interest and repayment on principal as</td>
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<td>proportion of revenue expenditure, 2019</td>
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<td>Spending on adult and children's social care as</td>
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<td>proportion of revenue expenditure, 2019</td>
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...and risk & resilience varies

Risk index indicators for Croydon

<table>
<thead>
<tr>
<th>Indicator List</th>
<th>Croydon</th>
<th>Ilkley</th>
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<tbody>
<tr>
<td><strong>Revenue risk - Sales, Fees and Charges</strong></td>
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<td>SFCs from off-street parking, PCNs and traffic control as proportion of revenue expenditure, 2018</td>
<td>2%</td>
<td>5%</td>
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<tr>
<td>SFCs from planning as proportion of revenue expenditure, 2019</td>
<td>1%</td>
<td>1%</td>
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<tr>
<td>SFCs from culture and related services as proportion of revenue expenditure, 2018</td>
<td>0%</td>
<td>0%</td>
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<td>SFCs from trade waste as proportion of revenue expenditure, 2018</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>SFCs from all services (excluding schools and social care) as proportion of revenue expenditure, 2018</td>
<td>22%</td>
<td>26%</td>
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<td>Revenue risk - Commercial income</td>
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<tr>
<td>Interest and investment income as proportion of revenue expenditure, 2019</td>
<td>3%</td>
<td>0%</td>
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<tr>
<td>Commercial property income surplus as proportion of revenue expenditure, 2018</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Estimated reserves (excl rents and pub health) as proportion of revenue expenditure. Mar 2020</td>
<td>9%</td>
<td>-6%</td>
</tr>
<tr>
<td>Percentage change in level of reserves in year to March 2020</td>
<td>22%</td>
<td>2%</td>
</tr>
<tr>
<td>Average percentage change in level of reserves, last 3 years</td>
<td>-3%</td>
<td>2%</td>
</tr>
<tr>
<td>External interest and repayment on principal as proportion of revenue expenditure, 2019</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Spending on adult and children’s social care as proportion of revenue expenditure, 2019</td>
<td>62%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: http://www.ifs.org.uk/research/local-dashboard

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The effect on councils’ finances

- Unmet COVID-19 income and spending pressures, even before the recent lockdown measures

- £2.4bn increase in adult social care spending, mostly due to extra demand (£0.9bn) and higher payments to suppliers (£0.9bn)
- £0.3bn extra on each of children’s social care, public health, culture & leisure, and environment
- £0.6bn due to unachieved efficiency savings
- Responding to new needs and responsibilities
  - £262m on Test & Trace
  - £155m to house & support rough-sleepers
  - £91m on support for those shielding
  - £6m a month on providing food

Source: Authors’ calculations using councils’ financial returns

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The effect on councils’ finances

- Unmet COVID-19 income and spending pressures, even before the recent lockdown measures

- £2bn reduction in sales, fees & charges
  - £0.7bn loss in parking income
  - £0.5bn loss in leisure & culture income
- £0.8bn reduction in commercial, investment and other income
  - Very different effects across councils
- Councils estimate that furloughing staff will only offset £36m of these income reductions.

Source: Authors’ calculations using councils’ financial returns.
The effect on councils’ finances

- Unmet COVID-19 income and spending pressures, even before the recent lockdown measures

Source: Authors’ calculations using councils’ financial returns
Medium term outlook

- Medium- and longer-term funding gap, with spending needs set to increase faster than available funding

**Projected funding gap if council tax up 2% a year**

Source: Figure 3.2. of Ogden, Phillips and Spiliotis (2020) ‘COVID-19 and English council funding: what is the medium-term outlook?’
Medium term outlook

- Medium- and longer-term funding gap, with spending needs set to increase faster than available funding

+ Existing adult social ‘underfunding’

Source: Figure 3.3. of Ogden, Phillips and Spiliotis (2020) ‘COVID-19 and English council funding: what is the medium-term outlook?’
Weak national public finances...

Public sector borrowing (% of national income), Central Scenario

Per cent of national income


Source: Figure 4.2 of Emmerson & Stockton (2020), ‘Outlook for the public finances’, IFS Green Budget 2020.

COVID-19 and councils

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… mean action will need taking…

Public sector net debt (% of national income)

Full persistence of additional borrowing

50% return: £40 billion tightening

Full return to pre-virus borrowing: £81 billion tightening

Source: Figure 4.15 of Emmerson & Stockton (2020), ‘Outlook for the public finances’, IFS Green Budget 2020.
Looming issues and choices

▪ How to repair the public finances – and when to start setting out plans

▪ How much funding to provide councils and in what way
  - Additional grant funding
  - Additional locally raised revenues
Looming issues and choices

- How to repair the public finances – and when to start setting out plans
- How much funding to provide councils and in what way
- How to progress funding reforms
  - Taking account of COVID-19 impact on different councils’ needs
Looming issues and choices

- How to repair the public finances – and when to start setting out plans
- How much funding to provide councils and in what way
- How to progress funding reforms
- The role of local and national government in:
  - Major public service policies (e.g. social care)?
  - Economic recovery and levelling up?

Need to align expectations, policy and funding
Thank You

www.ifs.org.uk/research/local-dashboard

www.ifs.org.uk/research/local-finance
Panel and Q&A

Nicola Morton – Finance Director, LGA

Cllr Richard Watts – Resources Chair, LGA and Leader of Islington Borough Council

Kamal Panchal – Senior Advisor, LGA

Andrew Carter – Director, Centre for Cities

David Phillips – Associate Director, IFS
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