Local government finance: chop and change

David Phillips, Associate Director, IFS

Office of the Children’s Commissioner for England

15th January 2019
Introduction

2010s have seen major changes for councils across England
• Significant budget cuts ➔ growing share of spending on critical services
• Major changes to funding system ➔ increasing focus on ‘financial incentives’

2020s will see further challenges and change
• Abolition of general grant funding, increased reliance on business rates
• New approach and formulas for redistributing funding between councils
• Increasing demand and costs – likely to outpace local tax revenues

Implications for children’s services
• Funding, risk and flexibility
• Knock-on effects from other service areas
Coming up

Trends and outlook for local government funding and spending
• Trends, by council, and by major service area
• Future outlook

Funding reform and what it may mean
• Business Rates Retention
• Future of Social Care Funding
• Fair Funding Review

Focus on Children’s Services
• Overspends relative to budgets
• Flexibility of funding – Public Health, SEND
Local government service spending: 2017-18

<table>
<thead>
<tr>
<th>Service</th>
<th>Including Education</th>
<th>Excluding Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult care</td>
<td>37%</td>
<td>21%</td>
</tr>
<tr>
<td>Children’s care</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>Other services</td>
<td>23%</td>
<td>13%</td>
</tr>
<tr>
<td>Public health</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Environment</td>
<td>69%</td>
<td>6%</td>
</tr>
<tr>
<td>Education</td>
<td>44%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations using Local Government Revenue Expenditure Outturns.
How is this spending funded?

Including Education

- Specific grant: 49%
- General grant: 5%
- Business rates: 26%
- Council tax: 30%

Excluding Education

- Specific grant: 49%
- General grant: 5%
- Business rates: 16%
- Council tax: 30%

Source: Author’s calculations using Local Government Revenue Expenditure Outturns.
How is this spending funded?

In addition councils receive fees and charges for particular services on top of their grant and tax revenues:

- £12 billion inc. education
- £10.3 billion ex. education

Biggest for adult care (£2.9bn), transport (£2.2bn), schools (£1.7bn). Little from children’s services (£0.2bn) or public health (£0.0bn)

Source: Author’s calculations using Local Government Revenue Expenditure Outturns.
Change in service spending: 2009-10 to 2017-18

- Large cuts to grants
- Council tax freeze
- Ring-fenced adult care funding
- Council tax increases

Source: Author’s calculations using various Local Government Revenue Expenditure Outturns. Excludes education & public health.
Cuts hit more grant-dependent areas harder

Change in service spend per person

-35% -30% -25% -20% -15% -10% -5% 0%

Most deprived areas
Tower Hamlets, Manchester, Liverpool, Blackpool

Least deprived areas
Surrey, Wokingham, Richmond-upon-Thames

Source: Author’s calculations using various Local Government Revenue Expenditure Outturns. Excludes education & public health.
Last three years have seen cash injections

Funding plans set out in 2016 implied slowing of pace of cuts, and each year these have been topped up

Source: Author’s calculations using Local Government Finance Settlements.
These have benefited richer areas more

Change in core spending power: 2015-16 to 2019-20

Most Deprived Areas

Least Deprived Areas

-10% -8% -6% -4% -2% 0% 2%

Plans as of Feb 2016
Latest plans
Latest plans plus business rates growth

Source: Author’s calculations using Local Government Finance Settlements.
Spending trends differ by service area

Source: Author’s calculations using various Local Government Revenue Expenditure Outturns. Excludes education & public health.
Spending trends differ by service area

- **Up 16%** according to councils’ main accounts (excludes young people’s services).
- **Down 11%** according to data from S251 (including young people’s services):
  - Core social care spend up 15%
  - Sure start down 66%
  - Services for young people down 64%

Source: Author’s calculations using various Local Government Revenue Expenditure Outturns. Excludes education & public health.
Increased focus on critical services

Adult and children’s social care take up a bigger share of spending

• 52% of spending (excluding education) in 2009-10
• 64% of spending (excluding education & public health) in 2017-18

Public health responsibilities transferred in 2013-14 and 2015-16

• Spending on public health services transferred in 2013-14 down 8%
• Social care plus public health over two-thirds of non-school spend 2017-18

Concentration on most critical needs

• Most severe social care needs
• Safeguarding and looked-after children
What about changes in schools spend?

Down 8%
Plans for 2020 & beyond still to be determined

Spending Review
• Overall spending envelope set in Spring Statement?
• Departmental allocations (inc. MHCLG) by time of Autumn Budget

Business Rates Retention
• Consulting now, with full plans after Spending Review

Fair Funding
• Consulting now, with full plans (inc. transition) after Spending Review

Social Care Green paper
• Imminently???????
Plans for funding levels in 2020 & beyond? (I)

Indexed values (2018−19 = 100)

Protected RDEL (inc NHS)

Real RDEL

Unprotected RDEL

£3.5 billion by 2023−24 extra to keep at 2019−20 level

£6.5 billion by 2023−24 extra to keep at 2019−20 level per person

Plans for funding levels in 2020 & beyond? (II)

Without additional funding, this would imply further cuts to other services – inc. children’s, public health, etc.
Summary on spending trends and outlook

Service spending per person down a quarter since 2009-10
- Larger in poorer areas than richer areas
- Driven by cuts to grant funding

Funding has become increasingly focused on critical duties
- Spend on children’s social care increased
- Adult social care spending fell but increasing again since 2015
- Other services bore brunt of the cuts

Cuts to overall funding ended in 2016-17
- Plans for 2020 and beyond yet to be set
- Above-inflation council tax increases would see funding increase but unlikely enough to meet rising costs and demands
Major changes to council funding system

Business rates retention
- Local government retains 50% of business rates
- Some areas piloting 100% and national 75% scheme from 2020-21

Fair Funding Review
- New approach and formulas for redistributing between councils
- Will create winners and losers

Adult Social Care funding
- Green Paper expected soon – has been delayed multiple times
- Need for clarity on how adult social care will be funded
Major changes to council funding system

Business rates retention
- Local government retains 50% of business rates
- Some areas piloting 100% and national 75% scheme from 2020-21

Fair Funding Review
- New approach and formulas for redistributing between councils
- Will create winners and losers

Adult Social Care funding
- Green Paper expected soon – has been delayed multiple times
- Need for clarity on how adult social care will be funded
Business rates retention: what is it?

Across England

½ Central Govt

½ Local Govt

Individual council

Revenue need in 2013

Business rates revenues in 2013

Pay a fixed ‘tariff’ on the excess revenue
Business rates retention: what is it?

Across England

\[ \frac{1}{2} \text{ Central Govt} \]

\[ \frac{1}{2} \text{ Local Govt} \]

Individual council

Revenue need in 2013

Business rates revenues in 2013

Gets a fixed ‘top-up’ to compensate
## Business rates retention: what is it?

### Across England

<table>
<thead>
<tr>
<th>½ Central Govt</th>
<th>½ Local Govt</th>
</tr>
</thead>
</table>

### Individual council

- **Revenue need in 2013**
- **Business rates revenues in 2013**

### Risk mitigation

- **Safety net stops largest income falls**
- **Paid for by a levy on those with lots of revenue**
- **Councils can pool their risk and reward**

---

**Councils bear up to 50% real-terms change in local rates revenues**

- Aims to incentivise planning approvals, development and growth
- Financial risk associated with rising needs / falling revenues
Business rates retention: what is changing?

Around half of England piloting 100% retention this year

- We estimate they’re gaining £870 million (3.6%) in 2018-19

Plan is for national 75% retention scheme in 2020-21

- General grant and public health grant due to be abolished
- Large parts of England piloting aspects of scheme in 2019-20

Aim is to strengthen financial incentives for growth but limit risk

- 75% > 50%
- Levy on growth only in exceptional circumstances
- Govt to bear risk of business rates valuation appeals, not councils
Business rates retention: what’s to decide?

Will it be 75% and will public health grant get rolled in?
• Will a ring-fence apply to public health element?

How will revenue changes be shared between districts and counties?
• Currently districts bear most of change – more reward, more risk
• Case for counties to bear more of the change

How long will councils bear changes in rates revenues?
• Growth will be redistributed and losses compensated for periodically
• Longer period means stronger incentive, more funding divergences
• Likelihood not all growth will be redistributed
‘Relative Funding Ratio’
= Share of national revenues / share of national spending need
Business rates retention: potential divergence

‘Relative Funding Ratio’
= Share of national revenues / share of national spending need
'Relative Funding Ratio'  
= Share of national revenues / share of national spending need
Business rates retention: potential divergence

‘Relative Funding Ratio’
= Share of national revenues / share of national spending need
Major changes to council funding system

Business rates retention
• Local government retains 50% of business rates
• Some areas piloting 100% and national 75% scheme from 2020-21

Fair Funding Review
• New approach and formulas for redistributing between councils
• Will create winners and losers

Adult Social Care funding
• Green Paper expected soon – has been delayed multiple times
• Need for clarity on how adult social care will be funded
Fair Funding Review: what is it?

2020-21 will also see new approach and updated formulas for redistributing funding between councils

- Vital as no effective system for redistribution at present
- And formulas for assessing spending needs at least 13 years old

Review being conducted by MHCLG with lots of input from councils

- Balance simplicity/transparency with accuracy/fairness

Transition period planned to smooth introduction of new allocations

- Speed of transition yet to be decided
Fair Funding Review: what could impact be?

Lots of work still in progress or unpublished

• New formula for adult social care spending need not yet published
• New formula for children’s services needs still being developed
Fair Funding Review: social care formulas

Based on analysis of how much councils spend on different locales or individuals

• Much better than analysis of how much different councils spend

Adult social care formulas take account of

• Share of population with long-term condition (+ve impact on need), on means-tested benefits (-ve), living arrangements (e.g. if in a couple), and for pensioners if home-owner (+ve) and local property values (+ve)

Children’s formulas take account of

• Not sure – but likely long-term conditions and deprivation will be key
Fair Funding Review: what could impact be?

Lots of work still in progress or unpublished

- New formula for adult social care spending need not yet published
- New formula for children’s services needs still being developed
- New approach to adjusting for costs takes direct account of travel times

Those plans that are published seem likely to shift funding from urban areas (esp. inner London) to leafy suburbs and shires

- Suggest formula for environment, housing, culture, planning, etc. to be based on population only – currently deprivation and in-commuters too
- Take account of council tax councils could raise if all set a common tax rate – not based on their own tax rates
Fair Funding Review: a funding lobbying tool?

Review is about distribution not level of funding

• Government currently claims it will be revenue neutral

An opportunity to bargain for more funding for local government?

• Losers likely to make more political noise than winners
• Recent precedent: additional funding found for schools to help implement national funding formula
Major changes to council funding system

Business rates retention

- Local government retains 50% of business rates
- Some areas piloting 100% and national 75% scheme from 2020-21

Fair Funding Review

- New approach and formulas for redistributing between councils
- Will create winners and losers

Adult Social Care funding

- Green Paper expected soon – has been delayed multiple times
- Need for clarity on how adult social care will be funded
ASC policy: conflicting with funding policy?

Tensions between council funding reforms and adult care objectives

• Council funding increasingly dependent on growth in local tax revenues – which can diverge around country

• Government says it wants to end ‘unacceptable variation’ in adult social care service access and quality

Two potential problems with this

• Tax revenues unlikely to keep pace with rising demands and costs
Recap: rising costs of adult social care

Net adult social care spending as percentage of local tax revs

- 38% in 2018–19
- 45% in 2024–25
- 55% in 2034–35

© Institute for Fiscal Studies
ASC policy: conflicting with funding policy?

Tensions between council funding reforms and adult care objectives

- Council funding increasingly dependent on growth in local tax revenues – which can diverge around country
- Government says it wants to end ‘unacceptable variation’ in adult social care service access and quality

Two potential problems with this

- Tax revenues unlikely to keep pace with rising demands and costs
- Revenues and needs can move in opposite directions at local level
Correlation between tax revenue growth and Adult care spending needs, 2006-07 to 2013-14

Source: Authors’ calculations using MHCLG revenues and RNF data.
Projected change in 75+ population

Share of population over 75

Source: Authors' calculations using ONS population projections.
ASC policy: risk for other services?

Other services could be squeezed to meet adult social care needs

• Especially if government tightens up service standard requirements
• Especially in areas where revenues falling / needs rising most

Government has to decide

• Accept that variations in revenue growth could mean continuing variations in adult social care services
• Redistribute revenue growth more fully and frequently – weakening growth incentives
• Fund adult social care outside general local government finance system
• Similar issue re: variation in children’s services?
Summary on funding reforms

75% rates retention and new funding formulas due in 2020-21

- Will redistribute funding around the country
- Councils will bear more of the change in local rates revenues
- Aim is stronger incentives and fairer needs assessments

Lots still to decide

- Consultations open until 21st Feb
- Further consultations in summer, with final plans towards end of year
- Plans for adult social care matter for other services too
- Do we need a broader debate on what’s a local and what’s a national responsibility?
Focus on children
Three specific issues

Pressures on children’s social care services spending

High-needs education funding

Children’s public health spending
Children’s services under pressure

Spending on core children’s social care services up 15% since 2009-10

• Spending on social work and safeguarding broadly flat
• Spending on children looked after up 30%

Spending on Sure Start and Services for Young People down two thirds
Significant rise in activity

Figure 2.5 Changes in the number of child protection enquiries, children subject to a child protection plan and looked-after children, since 2009/10

Source: Department for Education, ‘Children in Need Survey’, Table A1; Department for Education, ‘Children Looked After in England Including Adoption’, Table H1
Staffing numbers are up

Figure 2.3 Number of local authority children’s social workers as of 30 September, since 2011/12

Source: Skills for Care, ‘Analysis of the Local Authority Children’s Social Care Services Workforce Report’, Sections 1.1–1.2 and 2.1–2.2; Department for Education, ‘Children and Family Social Work Workforce’, Tables 1 and 1a
Delays to reviewing protection plans

Figure 2.6 Percentage of children subject to a child protection plan who had reviews within the required time, 2009/10 to 2016/17

Source: Department for Education, ‘Children in Need Survey’, Table A2
In 2017-18 rated biggest immediate pressure

My council's biggest immediate financial pressure is...

- **Children's services and education**: 32%
- **Adult social care**: 28%
- **Housing and homelessness**: 19%
- **Environment and waste**: 10%

Source: LGiU/MJ State of Local Government Finance Survey 2018
Children’s social care budgets busted

Increasing over-spends relative to budgets

• £800 million (10%) in 2017-18
• £640 million (8%) in 2016-17
• £600 million (8%) in 2015-16
• £365 million (5%) in 2014-15
• £280 million (4%) in 2014-15
In 2017-18 rated biggest immediate pressure

My council's biggest *longterm* financial pressure is...

- Adult social care: 38% (2018)
- Housing and homelessness: 19% (2018)
- Children's services and education: 16% (2018)
- Environment and waste: 11% (2018)

Source: LGiU/MJ State of Local Government Finance Survey 2018
High-needs education spending

Figures available from 2013-14 onwards only:

- School spend up £640 million (17%) in real terms by 2017-18
- Central spend (inc transport) up £115 million (13%)

Stable numbers of children with SEN/EHC plans:

- But a growing share of such children are in special schools
- Not all children with high needs will have SEN/EHC

Limited flexibility to shift money around

- If want to shift money from general schools budget need permission
- Could top up with general funding – few councils do (£35 million in 2017-18)
Children’s public health services

Public health grant has been cut

• Down nearly 13% in real-terms between 2015-16 and 2018-19
• Due to fall a further 4% in 2019-20

Public health spending has also been falling

• £525 million spent on under 5s in last 6 months of 2015-16
• £917 million spent in all of 2017-18, £877 million budgeted for 2018-19
• A fall of 22% in real-terms over 3 years

Unclear what will happen if/when ring-fence is removed in 2020-21
Summary
Local government has faced big cuts since 2009-10
• Bigger in poorer areas and for housing and “place” services
• Social care services are a growing share of overall spending

Cuts to overall budgets ended in 2016-17
• But in context of rising costs and demands
• Outlook: funding likely to increase due to council tax increases but not keep pace with rising demands costs

Children’s services increasingly seen as a pressure point
• Rising costs of looked-after children and high-needs education
• Under 5s public health funding faced substantial cuts
Summary (II)

Funding reform will create winners and losers

• Redistribution due to new needs and revenue-assessment formulas
• Business rates retention reforms to boost incentives while minimising risks

Lots of details still to be decided

• Children’s services spending needs formulas; how long retain rates for
• Consulting now, with further consultation in late Spring/Summer

Need to determine local v national funding responsibility

• Most obviously in adult social care services
• But also children’s services too?
Local government finance: chop and change

David Phillips, Associate Director, IFS

Office of the Children’s Commissioner for England

15th January 2019