



Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15

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Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009–10 to 2014–15

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Executive summary

- This briefing note focuses on net spending by local authorities on public services. We exclude spending on police and fire and rescue as this is not directly under the control of single-tier and county councils. We also exclude spending on education, public health and a small component of social care as local authorities' responsibilities for these areas have been changing over time. During this parliament, this measure of spending by local authorities in England has been cut significantly in real terms. Between 2009–10 and 2014–15, it was cut by 20.4% after accounting for economy-wide inflation. Taking into account population growth over this period, spending per person was cut by 23.4%.
- These cuts to local authority spending were similar in magnitude to those seen on average across central government departments outside protected areas such as the NHS, schools and official development assistance.
- Local authorities have had to cut spending in the face of falls in their main sources of revenue. Grants from central government to local government (excluding housing benefit grant and those specifically for education, public health, police, and fire and rescue services and the housing benefit grant) have been cut by 36.3% overall (and by 38.7% per person) in real terms between 2009–10 and 2014–15. Total council tax revenues have grown slightly in real terms over this period (3.2%), although this still represents a decline of 0.7% per person. Taking grants and council tax revenues together, local authorities' total revenues have fallen by 19.9% overall (or 22.9% per person) in real terms. Council tax revenues funded just over half of local government spending in 2014–15, up from 41% in 2009–10.
- Even though revenues have fallen significantly, on average local authorities have spent less than they received from grants and council tax over the last five years, meaning that on average they have increased their reserves rather than drawn from them. The average increase in reserves across local authorities in England was an increase equal to 5% of annual spending in 2009–10.

¹ The authors gratefully acknowledge funding from the Nuffield Foundation, which has provided generous support for ongoing IFS analysis relating to the 2015 general election.

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Support from the Economic and Social Research Council (ESRC) through the Centre for the Microeconomic Analysis of Public Policy at IFS (grant reference ES/H021221/1) is also gratefully acknowledged.

The size of cuts has varied across the country

- While the average cut to local authority net service spending per person (excluding education, public health, police, and fire and rescue) was 23.4%, the change seen by individual local authorities ranged from a maximum reduction of 46.3% per person (in Westminster) to a reduction of 6.2% per person (in North East Lincolnshire).
- Cuts to net service spending have tended to be larger in those areas that were initially more reliant on central government grants (as opposed to locally-raised revenues) to fund spending – these are areas that have, historically, been deemed to have a high level of spending need relative to their local revenue-raising capacity. The cuts to spending per person were also higher on average in areas that saw faster population growth.
- As a result, London boroughs, the North East and the North West have seen the largest average cuts to spending per person. Since these regions initially had the highest level of spending per person, there has been some equalisation in the average level of local authority spending per person across regions over the last five years. In 2009–10, spending per person was on average 80.1% higher in London than in the South East; by 2014–15 – with London having seen spending cuts that were nearly twice as deep as those seen in the South East – this differential had fallen to 48.0%.
- Since central government grants were cut much more deeply than council tax revenues, it is perhaps not surprising that those authorities for which grants made up a larger share of income saw larger cuts to their overall spending power. However, up to 2013–14 at least, the mechanism for allocating government grants was intended to take account of differences in local need and local revenue-raising capacity. But we can find no evidence that the formula actually operated in this way between 2009–10 and 2013–14. Indeed, there seems to have been no greater protection of more needy areas over this period than there was in 2014–15 when the new system for allocating grants – which explicitly does not account for changing relative needs – was introduced.

Some services have been cut more than others

- Social care was the single largest component (comprising 47.2%) of local service spending in 2009–10 (excluding education, police and fire services). It is also one of the areas that have experienced smaller-than-average cuts in spending per person over this parliament. Between 2009–10 and 2014–15, net spending per capita on social care was cut by 16.7%.
- Some of the service areas that saw the largest cuts to net spending were planning and development (which was cut to less than half its original level), regulation and safety, housing, and transport (all of which were cut by at least 30%). Net local authority spending on transport was cut by 45% in London, and by between a quarter and a third in other areas of the country, although transport providers offset some of this cut by raising fares.
- There was variation across the country, however, in which services different local authorities chose to focus the cuts on. The vast majority of local authorities chose to cut social care spending by less than other service areas. But prioritisation of other service areas has varied: for example, most areas have cut housing spending heavily but a minority of areas (particularly in London) have actually afforded it relative protection.

Planned cuts for 2015–16

- Local authorities are expected to face further cuts to revenues per person of 4.1% in 2015–16 (excluding specific grants for mandatory housing benefit payments and education, public health, fire and police services), meaning that the cumulative cut to revenues per person since 2009–10 will be 26.1%. This assumes that all councils freeze council tax rates (and accept the ‘freeze grant’ from central government) next year.
- The local authorities that have seen the largest cuts to revenues per person since 2009–10 are also those expected to see the largest cuts in 2015–16. London boroughs face a cut to revenues per person of 6.3%, which compares with 1.9% for shire counties.
- Local authorities differ in their ability to offset the cuts to their grants by increasing council tax revenues, because a given increase in council tax rates would increase overall revenues by less for councils that are more grant-reliant. For example, a 2% increase in council tax rates would, on average, increase revenues per person by 0.3% for London boroughs, compared with 0.5% for shire counties. This may explain why London boroughs have been the most likely, over recent years, to accept the council tax freeze grants, while unitary authorities have been the least likely to do so.

Future pressures

- There are likely to be further cuts to public service spending, and therefore local authority spending, over the next parliament. Future cuts may well be focused on the same local authorities that have experienced the largest cuts over this parliament.
- The new system for allocating central government grants essentially applies a uniform cut to all authorities’ grants, meaning that those with less local revenue-raising capacity will see larger cuts to their total spending power. These areas have also, on average, seen the largest cuts to spending power over this parliament.
- The new system also will not account for differences in population growth across areas. This means that those areas that see the fastest population growth will (other things equal) see the sharpest falls in grants per head. Official population projections suggest that the eight local authorities expected to have the fastest population growth over the next five years are all London boroughs, which also saw the fastest growth over the last five years.
- Social care spending is already the single largest activity undertaken by local authorities, comprising more than half (53.1%) of total local authority spending (excluding education, public health, police and fire services) in 2014–15, and it has been relatively protected from cuts over this parliament. However, pressures on this area of service provision are likely to continue to grow over the next parliament, as the Office for National Statistics (ONS) projects that the population aged 75 and over will grow by 13.9%, much faster than overall population growth.
- A future government could choose to increase spending on local government, although – since all three main UK parties are committed to reducing borrowing over the next parliament – this would likely have to come at the cost of reducing spending (or raising taxes) elsewhere.

- Another option for easing the pressure on some local authorities would be to increase the cap on council tax rises before a local referendum is required (which is set at 2% for 2015–16) and/or change the mechanism for allocating central government grants to distribute these in a way that implies more equal cuts to local authorities' total revenues.

1. Introduction

During this parliament, the coalition government has cut spending on public services in real terms (that is, after accounting for economy-wide inflation). It has reduced current (i.e. non-investment) spending on public services by 8.8% over the five years from 2009–10 to 2014–15. Responsibility for delivering part of this spending cut was devolved to local authorities in England by cutting the grant made by central government to local government. The other major source of revenue for local authorities (council tax) also fell in real terms, at least in part due to the incentives provided by central government to local authorities not to increase council tax rates in nominal terms.

This briefing note uses data from the Department for Communities and Local Government (DCLG) to delve into a number of questions about how local governments in England have responded to the reductions in their revenues. They have been forced to cut back significantly on service spending, but not all local authorities have been affected equally or reacted in the same way. Here we look at the following questions:

- How has the size of cuts to current spending varied across local authorities?
- How have local authorities chosen to allocate cuts across specific service areas?
- How do the cuts to local government spending relate to the growth in spending that preceded them?
- How has each of the different components of local authorities' incomes (grant, council tax, service income and drawing-down of reserves) changed over the last five years?
- What is known about the cuts that different areas face in 2015–16 and what are the prospects for local authority budgets beyond that?

Our focus is on publicly-funded services, known as net service spending. On top of this, local authorities may provide (or commission) other services that are privately funded (e.g. through fees and charges) – net service spending plus services funded by fees and charges is known as gross service spending. We focus on publicly-funded services (i.e. net service spending) because this is the most relevant indicator of how local authority spending supports people in that area. However, focusing solely on net service spending may obscure some interesting distributional changes – for example, local authorities raising fees charged to some users for some services in order to focus scarce public funds on other priority areas or specific target groups. We therefore devote some discussion to changes in service income in Section 5.3.

We focus throughout on local authorities' resource (i.e. non-investment) spending. Capital spending by local authorities has also been cut significantly – falling by 16.8% in

real terms between 2009–10 and 2013–14.² We also focus only on a subset of locally-provided services: specifically, we exclude police, fire and rescue, education, and public health services. The first two are excluded because these services are funded by specific grants to separate authorities and locally-levied precepts; therefore, local authorities do not have any choice over how much is spent on these services or how they are delivered. The last two are excluded because of changes over time in how much of the funding for these services is channelled through, and controlled by, local authorities. These exclusions are discussed in more detail in Section 2.

The rest of the briefing note proceeds as follows. Section 2 outlines the scale of cuts to overall local government net service spending and discusses how we compare spending over time given changing responsibilities of local authorities. Section 3 considers how the size of cuts has varied across regions and across local authorities. Section 4 considers how the cuts have been allocated across service areas and places the recent cuts in the context of the growth of local authority spending from 1997–98 to 2009–10. Section 5 provides more information on why cuts to net service spending differed across local authorities by examining changes in different sources of local government revenues. Section 6 describes the cuts to local authority spending power planned for 2015–16 and how these relate to cuts already experienced by different local authorities over the last five years. Finally, Section 7 concludes by laying out some of the challenges surrounding local government spending in the future.

2. The scale of local government spending cuts

Table 2.1 shows the level of local government spending under a number of different definitions of total spending. Overall, local government service spending was £116.5 billion (17.1% of total current public spending) in 2009–10 and £95.0 billion in 2014–15 (13.9% of total current public spending). All figures are in 2015–16 prices.³ However, changes in the responsibilities of local governments over the period mean that these figures are not directly comparable.

First, the figure for 2014–15 includes public health spending and some additional social care spending, responsibility for which was transferred from the Department of Health to local authorities in 2013–14 and 2011–12 respectively, and which are funded through specific grants (the public health grant and the Learning Disability and Health Reform Grant). Second, local authority spending on education has declined significantly since 2009–10, as a result of growth in the number of academies, which are funded directly by central government rather than by local authorities. Therefore, the decline in local government spending on education does not necessarily reflect a decline in education services provided locally. Excluding public health, new social care responsibilities and education gives a more accurate comparison of the cuts to local government services over this period. Net local government spending on non-education, non-public-health services

² Real-terms growth rates are calculated taking into account economy-wide inflation as measured by the GDP deflator, available at <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>. Local authority capital receipts and expenditure out-turns are available at <https://www.gov.uk/government/collections/local-authority-capital-expenditure-receipts-and-financing>. Figures for capital spending in 2014–15 were not available at the time of writing.

³ All monetary figures quoted in the text of this briefing note are in 2015–16 prices, inflated/deflated using the GDP deflator.

Table 2.1. The scale of local government cuts, 2009–10 to 2014–15

Measure of local government spending	£ billion (2015–16 prices), except where otherwise stated		Percentage change
	2009–10	2014–15	
Local authority net service spending	116.5	95.0	-18.5
Excluding public health and new social care responsibilities	116.5	90.7	-22.2
Also excluding education	66.5	53.7	-19.3
Also excluding police and fire	50.6	40.2	-20.4
Net service spending per person excluding public health, education, police and fire	£969	£742	-23.4

Note: Net service spending is the overall level of service spending on a service net of any income from providing services. Net service spending excludes non-service current expenditure, such as mandatory housing benefit payments and debt and interest payments. In 2013–14, responsibility for public health was transferred from the Department of Health to local authorities, along with funding to cover these new responsibilities. Since 2011–12, the Department of Health has paid a new Learning Disability and Health Reform Grant to local authorities in return for local authorities assuming additional responsibilities for social care for adults with learning disabilities. To ensure consistency with the figures for 2009–10, ‘services to young people’ are classified as education spending, despite being reclassified as social care spending in the DCLG out-turns in 2014–15. All figures are in 2015–16 prices.

Source: Local government expenditure out-turns, available at

<https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

(and including only a comparable measure of social care spending) fell from £66.5 billion in 2009–10 to £53.7 billion in 2014–15, a real-terms cut of 19.3%.

Another consideration in comparing local government spending relates to the different structures of local government in place across England. The primary tier of local government that we focus on here is that comprised by London boroughs, metropolitan districts, unitary authorities and shire counties, collectively known as single-tier and county councils (STCCs). For London boroughs and metropolitan districts, some spending is also undertaken by the Greater London Authority and specialist metropolitan transport and waste authorities. For shire counties, shire districts provide a lower tier of local government. Yet in these cases it is reasonably clear which STCCs service spending relates to. Somewhat removed from STCCs, however, are police and fire and rescue services, which are provided by further separate authorities and funded separately by specific central government grants and locally-levied precepts.

None of the STCCs has direct control over spending on police or fire and rescue services. We therefore exclude these areas of spending as well to get a more accurate picture of the spending cuts seen by STCCs.⁴ Police and fire and rescue services together have been cut at a slightly lower rate than the average rate for other local government services. Therefore, the measure of local government spending by STCCs that we will focus on in the remainder of this briefing note – that is, excluding police and fire and rescue, education, public health and the new social care responsibilities – fell in real terms by 20.4% from 2009–10 to 2014–15. For ease of exposition, we will henceforth refer to this measure of spending as ‘net service spending’ or ‘spending’.

⁴ We also need to exclude police and fire and rescue services when we examine spending cuts at the level of individual local authorities (as we do in Section 3) because police and fire authority boundaries typically do not correspond to the local authority boundaries and so it is not possible to allocate police and fire and rescue spending to individual local authorities.

While net spending on these service areas was cut by 20.4% between 2009–10 and 2014–15, the population of England actually grew by 3.9% over this period, meaning that this spending per person by STCCs fell by 23.4%.⁵ This briefing note mainly focuses on changes in spending per person in different local areas, as these provide a better indication (than do changes in total spending) of the change in the level of publicly-funded services received by people in different areas of the country.⁶

An interesting question is how local government cuts relate to the cuts faced by central government departments. Overall departmental current spending fell by 8.8% from 2009–10 to 2014–15, so it may appear that the local government cuts were relatively harsh. However, some central government spending – notably for schools, NHS and aid spending – was protected over the period in real terms. Therefore, unprotected departmental expenditure saw greater cuts of 20.3% over the period. In this light, local government spending fell at a similar rate to the average for unprotected central government spending.

3. How have cuts varied across local authorities?

Not all local authorities have seen the same cut to their net service spending. This section considers how spending cuts have varied across local authorities according to the region and the type of local government.

3.1 Regional differences in the cuts

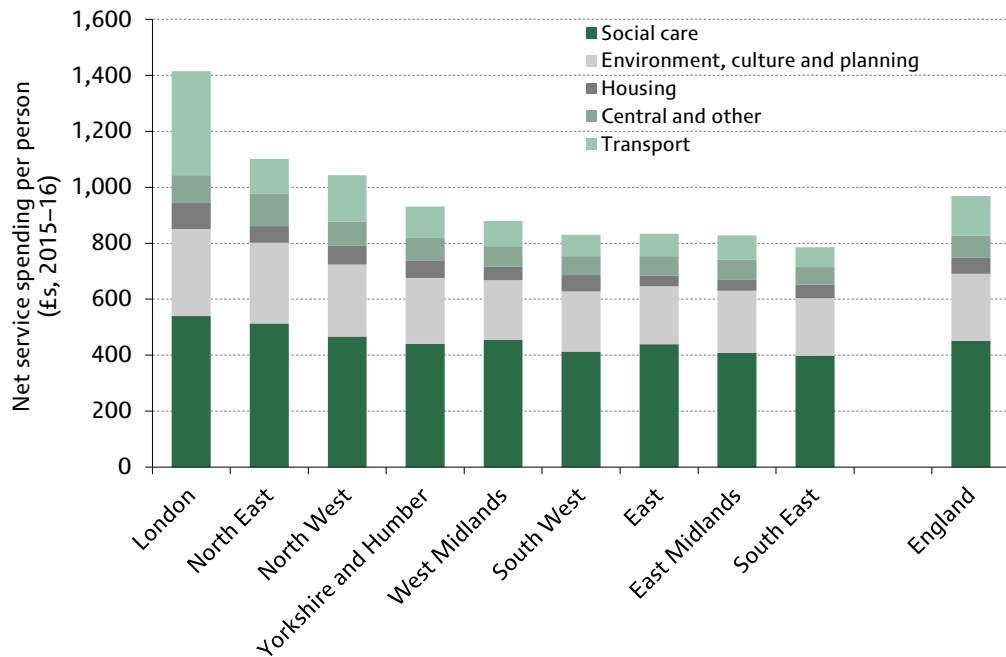
As shown in Figure 3.1, local government net service spending differs significantly across the regions of England. In 2009–10, spending per person in London was £1,415, nearly double spending per person in the South East of £785. London's relatively high spending is somewhat exceptional, but breaking down the total into its components shows that by far the biggest difference between London and the other regions was in transport spending. Some of London's higher spending may be explained by the extra spending required to cover higher costs of certain inputs into public services (e.g. wages) in London, while London's high transport spending may benefit people who do not live in London, such as tourists and those commuting into London from surrounding areas. Excluding transport spending, spending per person was 46% higher in London than in the South East in 2009–10.

The regions with the next-highest spending per person were the North East and North West, which are comparatively poor areas, while the regions with lowest spending were the East, East Midlands and South East, which are comparatively rich areas. The pattern of regional spending in 2009–10 therefore broadly aligned with the principle of

⁵ Population estimates for 2009–10 from the ONS population estimates, available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Estimates>, and for 2014–15 from ONS population projections, available at <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Projections>.

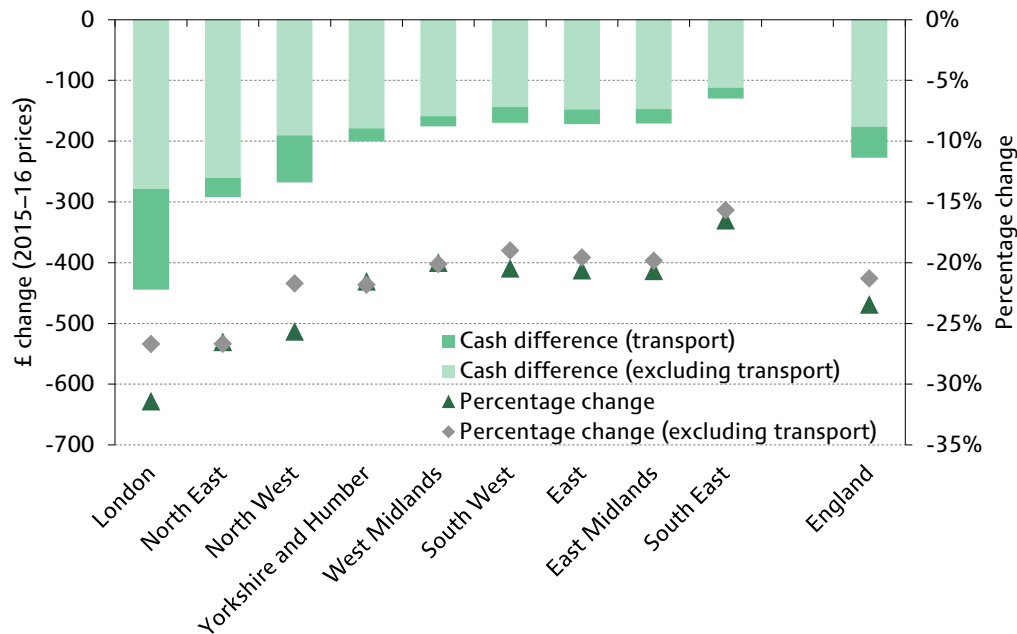
⁶ Spending per person is calculated as total spending in the local area divided by the number of people living in that area, rather than divided by the number of people using a specific service. The latter approach would give an inaccurate assessment of changes in spending levels if the ability to access services had also changed over time.

Figure 3.1. Net service spending per person across the regions of England, 2009–10



Note: Net service spending shown here excludes public health, education, police, and fire and rescue services. Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

Figure 3.2. Cuts to real spending per person across the regions of England, 2009–10 to 2014–15



Note: Net service spending shown here excludes public health, education, police, and fire and rescue services. Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

equalisation – that areas with higher local needs or higher costs require higher levels of spending.⁷

The size of cuts to spending per person between 2009–10 and 2014–15 across the regions of England shows a striking pattern (see Figure 3.2). Not only in cash terms, but also in percentage terms, spending cuts were highest in areas where spending was initially highest – London, followed by the North East and North West – and generally lowest in regions where spending was initially lowest. Net service spending per person in London was cut by 31.4%, nearly twice the cut (of 16.5%) seen by the South East. There was therefore convergence in the level of spending across regions; in 2009–10, spending per person was 80.1% higher in London than in the South East, but this had fallen to 48.0% higher by 2014–15.

London's large percentage fall is somewhat explained by transport spending, the cuts to which account for more than a third of the total reduction in London's service spending. Excluding transport spending – also shown in Figure 3.2 – London saw virtually the same cut to net service spending per person (26.7%) as seen in the North East (26.7%), but this was still more than one-and-a-half times as large as the cut to spending in the South-East (of 15.7%).

It is important to remember that these figures encompass only *net* service spending, and therefore exclude transport spending that is funded by service income and fares and also exclude capital spending on transport. For London, the largest items of net transport service spending are net subsidies to Transport for London and concessionary fares. Transport for London's net subsidy from the Greater London Authority was cut by 55% in real terms between 2009–10 and 2014–15. Comparing its budgets for these years reveals that the main way it coped with this cut was by increasing revenue from fares, which grew by 28.0% in real terms over the period.⁸

3.2 Variation in the size of cuts across local authorities

Of course, most decisions about local government spending are made by local authorities rather than at the regional level (the exceptions being spending by the Greater London Authority and regional waste and transport authorities). To gain a deeper understanding of how the cuts have varied across local authorities, it is useful to compare spending at the local authority level.

One complication with comparing spending between local authorities is the different structures of local government in place in England. To ensure spending by county councils is comparable to that by single-tier local authorities, we allocate all spending by shire districts to the shire county level. For metropolitan districts, some transport, environment and refuse spending takes place under separate authorities, to which districts pay levies for the service, and the Greater London Authority manages significant expenditures in London, most notably transport spending. We allocate spending to separate local authorities in proportion to the levy paid by them or in proportion to population size if no levy was paid.

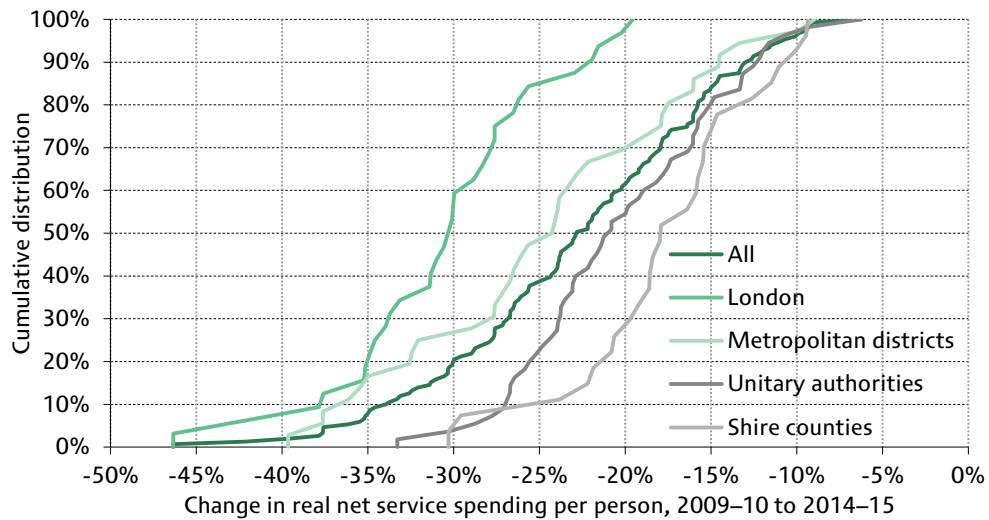
⁷ For an overview of how the principle of equalisation has historically been applied, see House of Commons Library, 'English local government finance: issues and options', Research Paper 14/43, 2014, <http://www.parliament.uk/briefing-papers/RP14-43.pdf>.

⁸ It also reduced operating costs by 6.4%. Transport for London's budgets for 2009–10 and 2014–15 are available at <https://www.london.gov.uk/sites/default/files/archives/gla-budget-docs-0910bud-draft.pdf> and <https://www.london.gov.uk/sites/default/files/MayorsFinalBudget2014-15.pdf>, respectively.

Figure 3.3 shows that there has been wide variation in the size of cuts to service spending per person seen by local authorities. The median cut to local authority spending per person was 22.9%, but the changes in spending per person ranged from a cut of 46.3% (for Westminster) to a cut of 6.2% (for North East Lincolnshire).

An interesting pattern emerges when we consider different types of local authority separately. Similar to the regional pattern presented in Section 3.1, London boroughs in general saw the largest cuts to service spending per person, followed by metropolitan

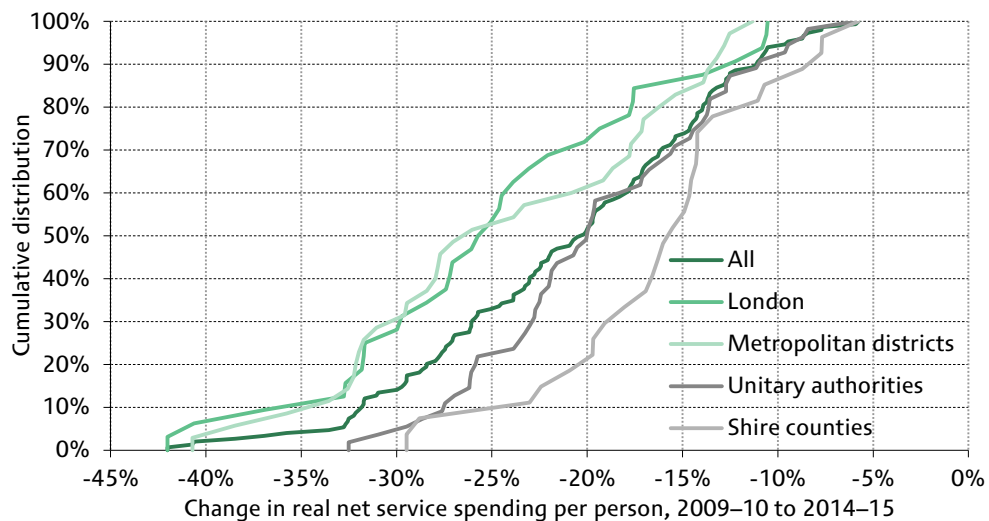
Figure 3.3. The distribution of spending cuts across local authorities



Note: The Isles of Scilly are excluded as an outlier. Net service spending shown here excludes public health, education, police, and fire and rescue services.

Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

Figure 3.4. The distribution of spending cuts across local authorities (excluding transport)



Note: The Isles of Scilly are excluded as an outlier. Net service spending shown here excludes public health, education, police, fire and rescue, and transport services.

Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

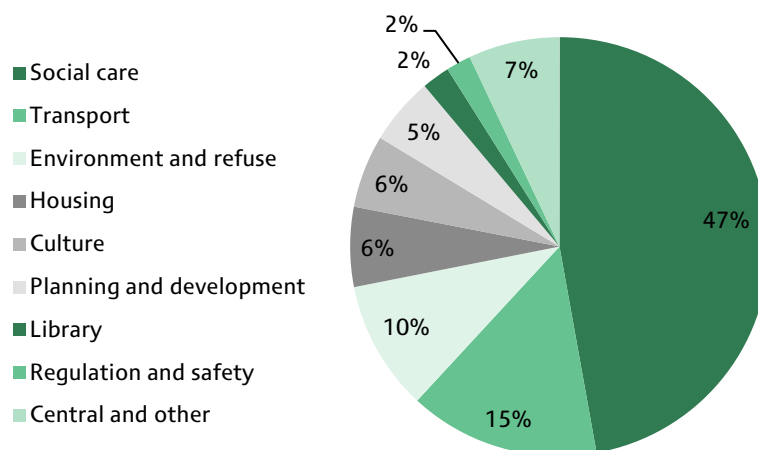
districts. Shire counties in general saw the smallest cuts to spending per person. In fact, all London boroughs saw per-person spending cuts greater than those for all but a third of shire counties. Nevertheless, there remained dispersion in the size of cuts within each type of local authority. For example, while a quarter of metropolitan districts cut spending per person by more than 32%, another quarter cut spending per person by less than 18%.

As noted above, a significant proportion of London’s large cuts are explained by cuts to transport spending. Excluding transport spending (see Figure 3.4), the median cut to net service spending per person in London (25.7%) was actually slightly lower than that in metropolitan districts (26.5%), and the distribution of spending cuts was broadly similar between London boroughs and metropolitan districts. However, even after excluding transport spending, it remains true that cuts to local government spending per person were lowest on average in shire counties.

4. Which service areas have been most affected?

Local authorities are responsible for providing a range of services. Figure 4.1 shows the proportion of local government net service spending devoted to each of the service areas provided by local government in 2009–10, excluding education, police and fire. By far the largest service area was social care, accounting for just under half of this measure of spending, followed by transport (15%) and environment and refuse (10%). A number of smaller spending areas made up the remainder, including housing, culture, and planning and development, which each accounted for between 2% and 6% of total spending.

Figure 4.1. The composition of local government spending, 2009–10



Note: Net service spending shown here excludes education, police, and fire and rescue services.
 Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

4.1 Which service areas have experienced the largest cuts?

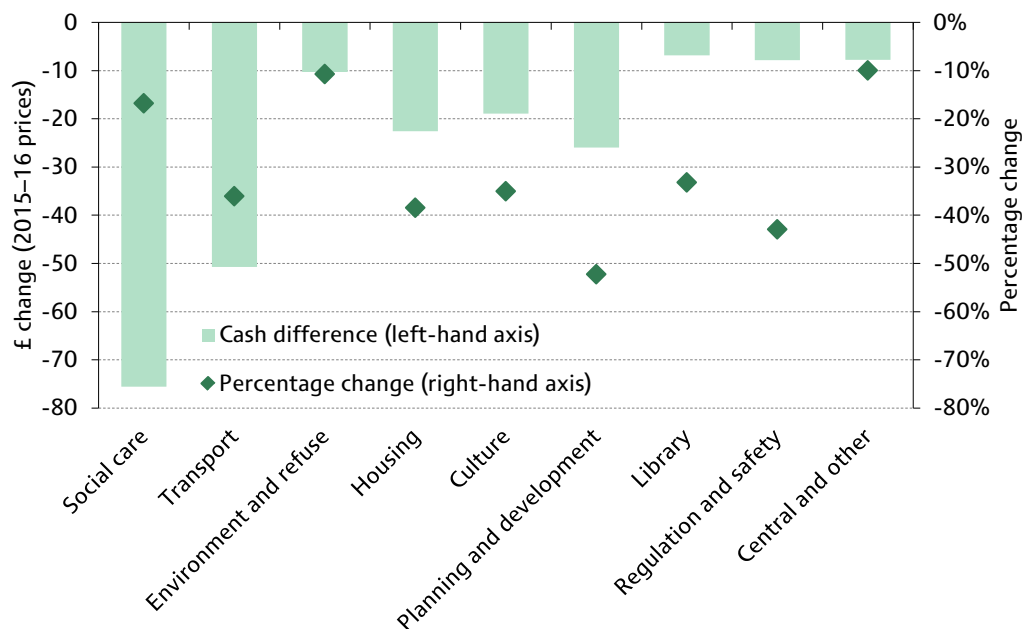
Faced with cuts to local government net service spending per person averaging 23.4%, local authorities had to decide how to allocate these cuts across spending areas. Figure 4.2 shows that, on average, all spending areas saw cuts to spending per person between 2009–10 and 2014–15. However, the extent of the cuts varied across services. Other than

central and other services, environment and refuse saw the smallest average cut to spending per person of 10.7%. The next most protected area was social care, seeing a cut to spending per person of 16.7%. Because social care is such a large component of local spending, protecting it in this way means that cuts to most other service areas have been significantly larger than the average. Transport, housing, culture, library, and regulation and safety services all saw cuts to net spending per person of more than 30%, while net spending on planning and development services was cut by more than half.

Given the variation in the size of spending cuts across local authorities documented in Section 3.2, the national average spending cuts for specific service areas may not give a useful indication of the cuts experienced by individual authorities or types of authority. One particular spending area where this may be the case is transport spending, since, as noted in Section 3.1, this was initially much higher for London boroughs than other types of local authorities and accounted for a large portion of London’s high spending cuts. Figure 4.3 compares the average cuts to transport service spending per person experienced by different types of local authority. The graph confirms that it was in fact London boroughs that saw, on average, the largest cuts to net transport service spending per person in both cash and percentage terms. Metropolitan districts, unitary authorities and shire counties all experienced similar percentage cuts to their transport spending (of between 25% and 30% per person), although – due to their higher initial spending on transport – this amounted to a larger cut in cash terms for metropolitan districts.

It is important to consider the variation across individual local authorities in the extent to which they have cut specific spending areas. The cumulative distribution of spending cuts for four spending areas is shown in Figure 4.4. Because of the differences in transport

Figure 4.2. Average change in net service spending per person, by service area (2009–10 to 2014–15)



Note: Service areas ordered by level of initial spending. To ensure comparability with the figure for 2009–10, social care spending in 2014–15 excludes new responsibilities that were transferred to local authorities between 2009–10 and 2014–15 through the Learning Disability and Health Reform Grant, as well as ‘services to young people’, which were reclassified from education to social care spending in 2014–15.

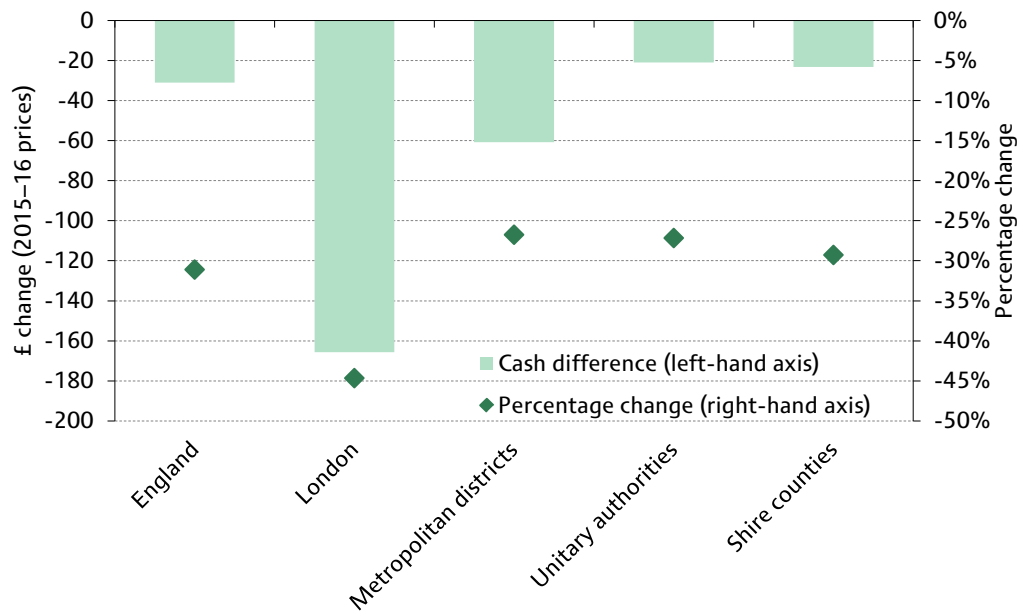
Source: Local government expenditure out-turns, available at

<https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

cuts between London boroughs and other local authorities, transport is considered separately for London.

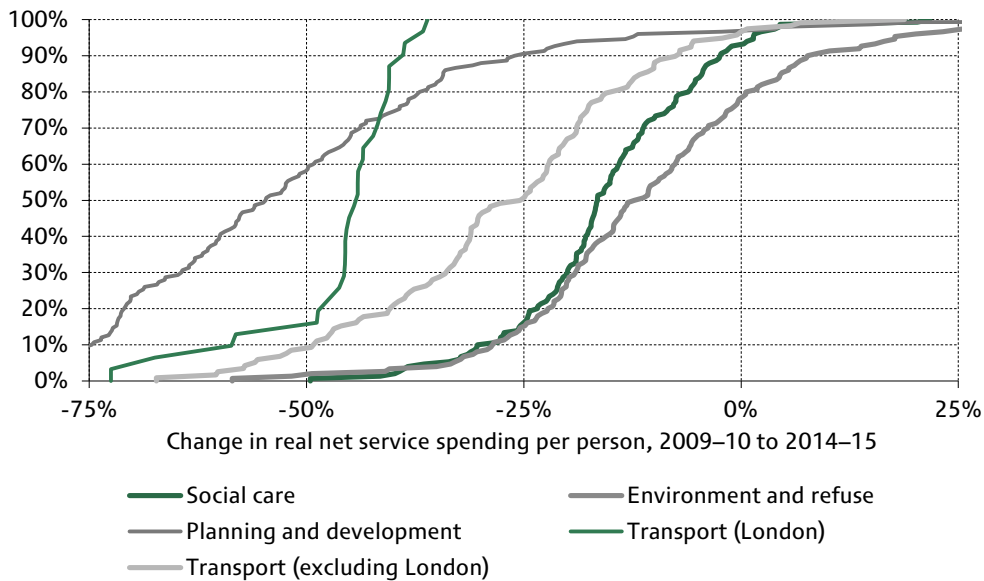
The graph shows considerable variation between local authorities in the cuts to specific service areas. While planning and development was cut on average the most, a small number of authorities actually increased net spending on planning and development over the period. As expected (given the data presented in Figure 4.3), transport spending was

Figure 4.3. Average cuts to transport spending per person for different types of local authority



Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

Figure 4.4. The distribution of per-person spending cuts across service areas

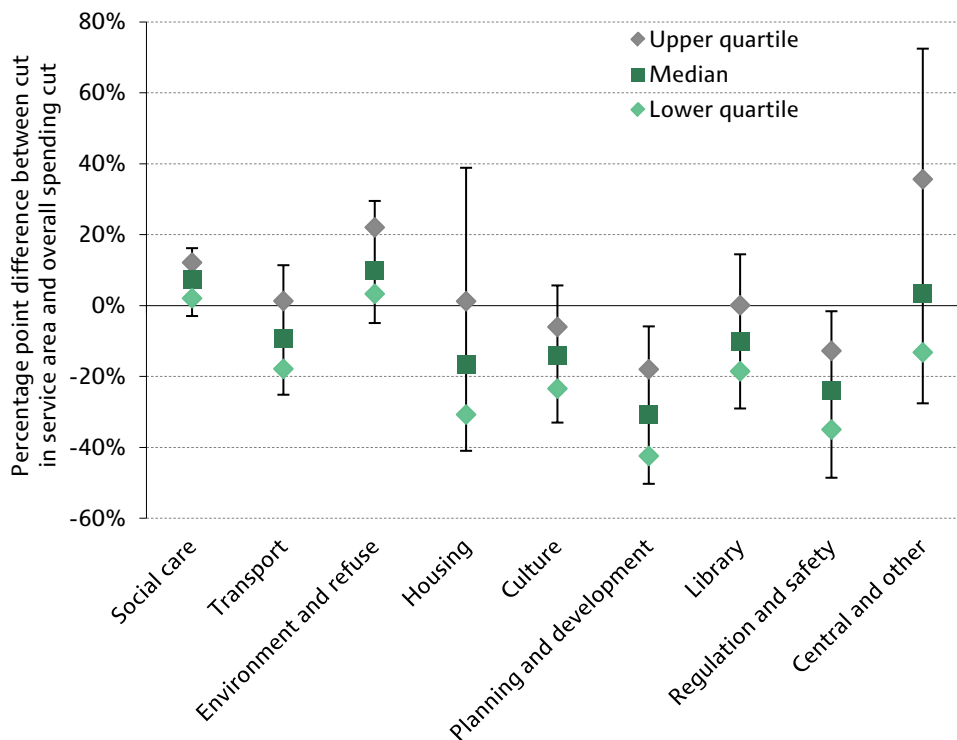


Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

in general cut by more per person in London than in other areas of the country, but 15% of other local authorities actually saw higher cuts per person to their transport budget than the average seen by London boroughs. Of the four spending areas, there was least dispersion in the size of social care spending cuts, but even so one-in-ten local authorities cut net spending by more than 30% per person, while one-in-fifteen authorities increased spending per person.

Some of the variation between local authorities in the cuts to specific service areas will simply be driven by differences in the overall cuts to spending being implemented by different authorities. However, Figure 4.5 indicates that this is not the whole story – some of the variation is driven by local authorities having different priorities from one another. It shows the extent to which spending on a particular service was cut by more or less than the average budget cut experienced in the local authority. Positive values mean that the service area saw a smaller per-person cut than the overall average for the authority (i.e. the service area was relatively favoured), while negative values indicate that the service area saw larger cuts. For example, a value of +10 for social care means that social care spending per person was cut by 10 percentage points less than the overall spending cut in that local authority; so, if the local authority cut spending per person overall by 20%, then social care experienced a 10% cut to its spending per person.

Figure 4.5. The protection of specific services relative to local authorities' overall spending cuts



Note: The graph plots points in the distribution of the difference between the percentage spending cut an authority chose for a specific area and the overall percentage cut to spending that local authority experienced. The black bars show the range of the distribution, excluding the 10% of largest and smallest differences between the percentage cut to spending in the service area and the overall percentage cut to spending. Service areas ordered by level of initial spending.

Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

Figure 4.5 confirms the picture presented by Figure 4.2 that, on average, social care and environment and refuse spending were relatively protected, while all other areas of spending experienced larger cuts. More than half of local authorities reduced social care spending by more than 7.4 percentage points less than the overall percentage cut to their budgets; in fact, fewer than a quarter of local authorities cut spending on social care by more than the overall percentage cut to their budget.

However, there was more variation in relative protection granted to other spending areas. In particular, whilst at the median housing services were cut by 16.5 percentage points more than overall spending, more than a quarter of authorities (including many London boroughs and metropolitan districts) actually cut housing spending by less than overall spending. For some areas, this reflects a decision to increase discretionary housing benefit payments (which are included in net service spending), which may well have been in response to the changes that have been made during this parliament to housing benefit.⁹ For example, the council that showed the greatest relative protection to housing service spending was Lambeth, which increased spending on discretionary housing benefits from £161,000 to £1.7 million between 2009–10 and 2014–15. (Mandatory housing benefit payments from central government are not included in net service spending.)

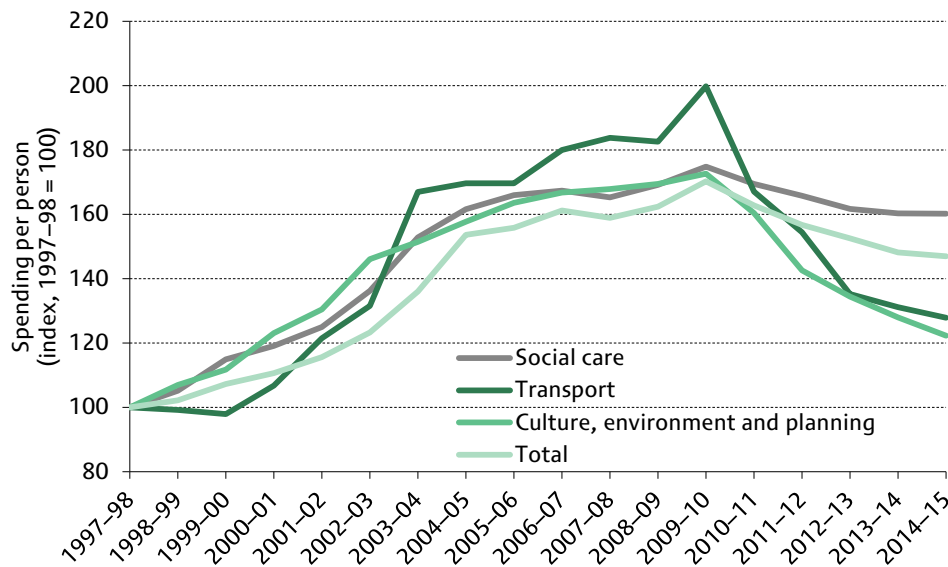
4.2 How does the size of recent cuts relate to the growth of local authority spending prior to 2009–10?

The cuts to local authority spending that began in 2009–10 were preceded by a long period of growth in spending. Figure 4.6 compares the growth in spending in specific service areas from 1997–98 to 2009–10 with the cut to spending that followed. There are a number of difficulties in constructing a consistent series for spending over this period:

- The rest of this briefing note has considered net service spending. However, data for this measure are not available as far back as 1997–98. Therefore, in this subsection, we instead present figures for net current spending. For most service areas, there is little difference between net service spending and net current spending. However, for housing, net current spending is much larger than net service spending because the former includes mandatory housing benefit payments that are made by local authorities but are determined and funded by central government. Mandatory housing benefit payments have tended to grow more quickly over time than discretionary housing spending, and as a result the path of net current spending on housing over time looks very different from that of net service spending on housing. We therefore exclude housing spending from the analysis in this subsection.
- A further complication is that it is not possible to compare service spending at the same level of detail as has been used for most of the briefing note. In earlier years' data, figures for spending on culture, environment and refuse, and planning and development are reported in a single category. This is unfortunate because they have followed markedly different paths from one another since 2009–10.

⁹ See A. Hood and D. Phillips, 'Benefit spending and reforms: the coalition government's record', IFS Briefing Note, BN160, 2015, <http://election2015.ifs.org.uk/uploads/publications/bns/BN160.pdf>.

Figure 4.6. Historical comparison of the growth of local government spending up to 2009–10 with the cuts that followed



Note: An accounting change in 2009–10 means that figures for 1997–98 and 2009–10 are not directly comparable, but in practice (for the spending areas shown here) this makes little difference. It is possible that local authorities’ spending responsibilities within service areas changed over time.

Source: Local government expenditure out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>, with archived data for 1997–98 available at <http://webarchive.nationalarchives.gov.uk/20121108165934/http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/revenueexpenditure/>.

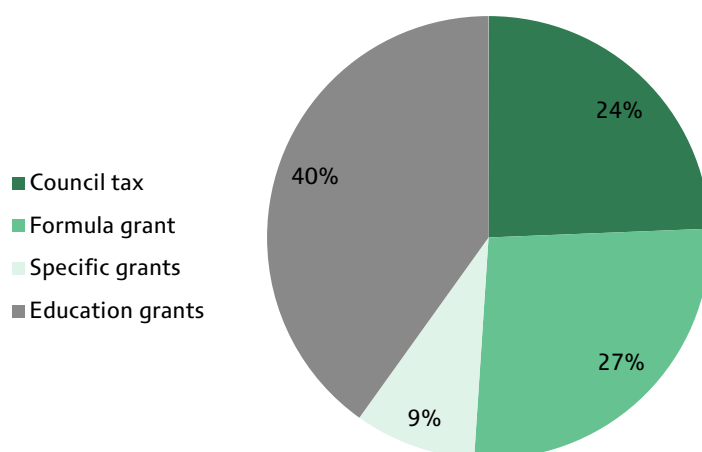
The fastest area of growth between 1997–98 and 2009–10 was transport spending, which doubled in real terms over this period (growing by an average 5.9% a year). This was also the area that saw the largest cuts from 2009–10 onwards (averaging 8.5% a year) – bringing spending back to the same level in real terms as was last seen in 2002–03. Spending on social care and culture, environment and planning saw similar growth to each other up to 2009–10 (around 4.5% per year) but followed markedly different paths thereafter, with social care being the most protected spending area. Social care spending has been cut back to the level it was in 2004–05, while spending on culture, the environment and planning has been cut back to the level it was in around 2000–01.

5. Changes in different sources of revenue for local authorities

To help understand the variation in the size of spending cuts across local authorities documented in Sections 3 and 4, this section outlines the sources of revenue available to local authorities and how these changed between 2009–10 and 2014–15.

In 2009–10, local authorities had three main sources of revenue to finance net service expenditure: council tax; a formula grant, which provided general funding to councils; and specific grants earmarked for particular services. Councils also received specific grants to finance non-service current spending – the most significant being a grant to cover mandatory housing benefit payments. In addition, councils may gain income from providing services and may top up their spending by drawing down their reserves.

Figure 5.1. The composition of STCC revenues, 2009–10



Note: Revenue shown here excludes grants and local precepts paid to police and fire and rescue services.

Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

Service income – which makes up the difference between net and gross service spending – includes fees and charges, and is considered separately in Section 5.3. Changes in local authority reserves are considered in Section 5.4.

Figure 5.1 shows the sources of revenue available to STCCs (that is, excluding grants and local precepts paid to police and fire services) to finance net service spending, separating out education grants from other specific grants.

Comparison of local government revenues in 2009–10 with those in 2014–15 is complicated by a number of reforms over the period:

- First, a number of specific grants were rolled into the formula grant, changing the composition of central government grants and making it difficult to separately compare changes to the formula grant and changes to specific grants over time. Therefore, we take as our definition of grants the total grants available to local authorities to finance their net service spending, combining the formula grant and specific grants.
- Second, in 2013–14, the formula grant was replaced by the ‘settlement funding assessment’, which was divided into a revenue support grant and a portion of retained business rates collected locally (see Section 5.1).
- Third, council tax receipts reported by local authorities in 2009–10 were inclusive of council tax benefit (CTB) payments. These payments were not actually paid by local residents but instead local authorities claimed them from the Department for Work and Pensions. In 2013–14, the nationwide CTB scheme was replaced by local council tax support (CTS) schemes. Consequently, council tax receipts reported by local authorities no longer included CTB payments but instead only the amount of council tax actually collected locally. To ensure comparability between council tax receipts in 2009–10 and 2014–15, we add to council tax receipts in 2014–15 the amount of council tax revenue that councils estimate they have forgone in 2014–15 by providing CTS. This gives us a figure for gross council tax in 2014–15 that is comparable to the definition of council tax revenues available in 2009–10. We also

subtract this figure from the size of the grants received by councils so as not to double count this revenue.

- Fourth, each year since 2011–12, councils have been offered a grant to freeze council tax rates in cash terms. DCLG reports the council tax freeze grant as part of the settlement funding assessment. However, we include it here as part of council tax revenues, rather than in government grant. This is to ensure that any changes in government grant described here do not reflect decisions by local authorities about whether or not to freeze their council tax rates.

As well as making the adjustments described above, for the rest of this section – to aid comparison with the definition of spending used in Sections 2–4 – we focus on the sources of revenue that are available to councils to fund non-education, non-public-health net service spending. To do this, we subtract from local authority revenues those grants that are specifically labelled as being for education or public health. The resulting measure of revenues (in total and per person) is described in Table 5.1.

Overall, the measure of revenues shown in Table 5.1 fell by 19.9% between 2009–10 and 2014–15; on a per-person basis, the fall was larger, at 22.9%. Council tax receipts actually increased by 3.2% in real terms, although this rise was slightly lower than population growth over the period, meaning that council tax receipts per person fell slightly.¹⁰ Meanwhile, central government grants per person fell by nearly 40%. Consequently,

Table 5.1. Changes in local government revenues

	2009–10	2014–15	Percentage change
Revenues (£m)			
Total excluding housing benefit grant, education, public health, fire and police grants	60,869	48,754	–19.9
Central government grants*	36,071	22,975	–36.3
Council tax*	24,733	25,524	+3.2
Revenues per person (£)			
Total excluding housing benefit grant, education, public health, fire and police grants	1,166	899	–22.9
Central government grants*	691	424	–38.7
Council tax*	474	471	–0.7

Note: * Prior to 2013–14, council tax receipts reported by DCLG included council tax benefit that was passed on to residents and funded by a central government grant, whereas from 2013–14 council tax benefit is excluded and the central government grant is recorded alongside other central government grants. To ensure the figures for council tax and grants for 2014–15 are comparable to those for 2009–10, we add local authorities’ estimated lost council tax revenue from providing council tax benefits to council tax revenues and subtract it from central government grants. Council tax freeze grant is also included among council tax revenues. Central government grants and council tax do not exactly sum to the total as there is also a very small ‘other’ revenues category. All figures are in 2015–16 prices.

Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

¹⁰ As described above, we include in our measure of council tax receipts the grant paid by central government to local authorities in return for them freezing their council tax rate in certain years. Because this freeze grant may not be repeated in later years, the measure of ‘council tax receipts’ shown here overstates the structural increase in council tax revenues. Excluding freeze grants, council tax receipts have fallen by 0.5% overall (and by 4.2% per person) in real terms.

whilst council tax made up 41% of revenues in 2009–10, council tax revenues were actually greater than central government grants in 2014–15.

Despite the adjustments described above, the measure of revenues described in Table 5.1 does not match exactly the measure of spending described in Table 2.1. In particular, the level of revenues is somewhat larger and the cuts over time slightly smaller than those for spending. There are a number of reasons that our measure of revenues does not exactly match our measure of spending:

- Local authorities may use some of the revenues described in Table 5.1 for discretionary spending on areas excluded from our analysis – namely, education and public health.
- There are items of current spending outside of net service spending (in particular, debt and interest payments and capital spending allocated from the current budget), which local authorities have to fund from council tax revenues and grants but which are excluded from our earlier analysis of net service spending.
- Any difference between a local authority's total spending and its total revenues is made up by calls on or contributions to its reserves. Changes in local authority reserves are examined in more detail in Section 5.4.

5.1 Changes in central government grants to local authorities

As noted above, central government grants to local authorities were reformed significantly between 2009–10 and 2014–15. Prior to 2013–14, local authorities received a general formula grant and specific grants intended to be used for particular services (some of these specific grants were ring-fenced while others could in practice be used for any purpose). The formula grant was set each year based – in principle, at least – on an assessment of authorities' 'needs' – where 'needs' included, for example, population size and structure, measures of local deprivation, and local revenue-raising ability. The stated intention was that the formula grant would equalise authorities' spending power, conditional on the areas' needs.¹¹ Specific grants are also intended to reflect the needs of local authorities with respect to specific services.

The way the formula grant is allocated was reformed in 2013. The grants that previously made up the formula grant were replaced by a revenue support grant (itself made up of a core element plus a number of other specific grants that were rolled into the revenue support grant) and the business rates retention scheme, together known as the settlement funding assessment. Under the new system, the core element of the revenue support grant and the baseline funding under the business rates retention scheme are determined by a uniform reduction in the amount allocated in the previous year. Other grants outside of the core element continue to be allocated according to other formulas, while the business rates retention scheme allows local authorities to keep up to half of any increases in business rate receipts in their area. The business rates retention scheme is designed to incentivise local authorities to develop the local economy.¹² In other words, going forward, the formula grant will no longer adjust to changing relative needs across

¹¹ For a description of the four-block system used to allocate formula grant prior to 2013–14, see DCLG, *The Local Government Finance Settlement in England: A Guide to the Basics*, 2012.

¹² Further information on the 2013 reforms to the formula grant is available in House of Commons Library, 'English local government finance: issues and options', Research Paper 14/43, 2014, <http://www.parliament.uk/briefing-papers/RP14-43.pdf>.

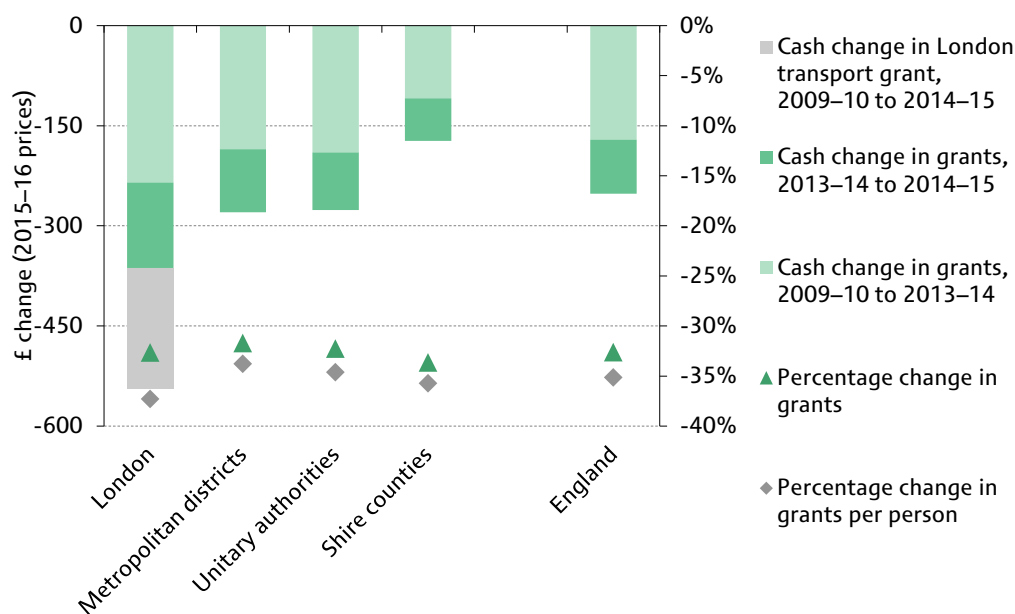
areas, such as different population growth rates, until needs are reassessed in 2020 (the implications of this policy change are discussed in Section 7).

Figure 5.2 shows how cuts to grants (and grants per person) between 2009–10 and 2014–15 have varied across types of local authority, considering central government grants¹³ together with retained business rate income. To help understand how changes to grants have differed under the old and new funding systems, the cuts to grants up to and after 2013–14 are shown separately, with the change in the London transport grant also separated out.

London boroughs on average experienced the largest cut to grants from central government in cash terms. In percentage terms, the cut to grants was similar among types of local authority, with the largest cut to grants actually in shire counties (33.6%), although due to London’s higher population growth it saw the largest cuts to grants per person (37.3%). The overall cut to grants in London was affected by the very large cut to the London transport grant. Excluding this, the average cut to grants among London boroughs was 30.7%, slightly lower than for other types of local authority. This translates into a cut to grants per person of 35.4%, a similar level to those for other types of local authority.

As was described above, up to 2013–14 the grant allocation formula supposedly took account of differences in need and revenue-raising capacity across areas, while the new system (which determined the grant allocation in 2014–15) simply applies a uniform change to the core element of the revenue support grant and the baseline funding under

Figure 5.2. Cuts to central government grants per person by type of local authority in England, 2009–10 to 2014–15

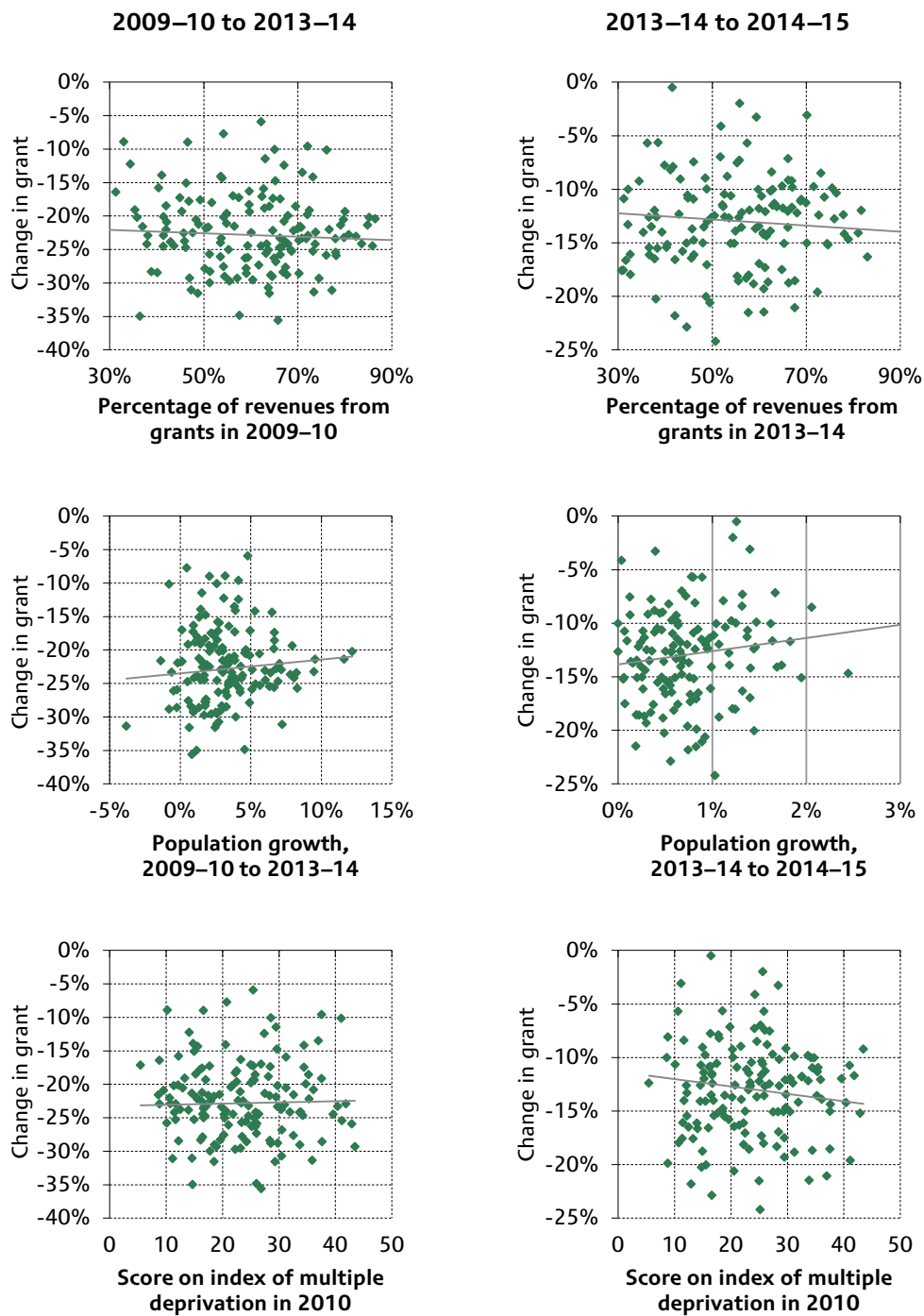


Note: Excludes grants for mandatory housing benefit payments and education, public health, fire and police services and the Learning Disability and Health Reform Grant.

Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

¹³ Excluding specific grants for education, public health, police and fire services, the Learning Disability and Health Reform Grant and mandatory housing benefit payments.

Figure 5.3. The relationship between characteristics of local authorities and the size of the cuts to grants, 2009–10 to 2014–15



Note: Excludes grants for mandatory housing benefit payments and education, public health, fire and police services and the Learning Disability and Health Reform Grant.

Source: Data on the cuts to local government spending and the proportion of initial revenue expenditure from grants come from local government expenditure and revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>. Data on population are from the Office for National Statistics, population estimates available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Estimates> and population projections available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Sub-national+Population+Projections>. Data on index of multiple deprivation in 2010 are from the Office for National Statistics, available at <https://www.gov.uk/government/collections/english-indices-of-deprivation>.

the business rates retention scheme. This suggests that more 'needy' areas and those with lower revenue-raising capacity perhaps ought to have been relatively protected from the cuts to government grants up to 2013–14 but may have lost this protection in 2014–15. It is therefore interesting to look at how the cuts varied across areas up to and after 2013–14.

Figure 5.3 shows the relationship between the size of the cut to grants seen by a local authority and three measures of its 'need' for central government grants, along with lines of best fit through the data points. The first indicator is a measure of local revenue-raising capacity – specifically, the share of initial revenues coming from central government grants (as opposed to council tax). A larger fraction of revenues coming from government grants suggests that the area has less capacity to raise revenue locally. The second indicator is population growth. The third indicator is the area's score on the index of multiple deprivation (IMD), where a higher score indicates a higher level of deprivation. Figure 5.3 separates out the two periods of interest – the left-hand figures show the change in grants between 2009–10 and 2013–14 and the right-hand panel shows the change in grants between 2013–14 and 2014–15.

Comparing the left- and right-hand panels in Figure 5.3 suggests that there was no discernibly greater 'equalisation' under the old funding system than under the new one. For example, the top left panel shows that, on average, those areas that were more reliant on central government grants saw similar percentage cuts to their grants between 2009–10 and 2013–14 to those seen by areas that were less reliant on government grants initially. For example, the area that initially received the lowest share of (this measure of) revenues from government grants (Wokingham, which received 27.9% of its revenue from grants) saw a 17.1% cut in grant between 2009–10 and 2013–14; Westminster (which received 86.4% of this measure of revenues from grants, making it the second most grant-reliant¹⁴) saw a 20.4% cut to its grant in real terms.

The second panel on the left suggests that there was also no overall tendency for those areas that saw faster population growth to receive smaller cuts to grants under the old system – meaning that grant per person will have fallen by more on average in areas with higher population growth. Finally, the bottom two graphs show that, across both the periods in question (2009–10 to 2013–14 and 2013–14 to 2014–15), less deprived areas saw similar average cuts to their grants to those seen by more deprived areas.

Some readers may find it surprising that the old system resulted in no smaller cuts for 'needy' areas than the new system, given that the old system (apparently) explicitly aimed to take into account differences in need, while the new system explicitly does not factor in changing needs. However, the shortcomings of the old system in achieving equalisation have been pointed out by others before. Gibson and Asthana (2012) note that the old formula 'does not merely incorporate judgement at various stages, it is completely subservient to the post hoc choice of need and resource equalisation proportions', that 'almost any funding outcome can be achieved simply by manipulating the equalisation proportions' and that 'there is no reason why any particular combination of proportions should be preferred over any other combination'. They conclude that '[i]t may not be a politically-biased outcome – the intention is not to privilege particular types

¹⁴ The most grant-reliant authority was the City of London. However, it is a somewhat unusual authority and so we cite the figures for Westminster here instead.

of authority or particular communities – but the current [pre-2013] approach to formula funding is nonetheless unquestionably outcome-led'.¹⁵

Under the new funding system, the core element of the settlement funding assessment is cut by the same percentage for all local authorities. However, other grants continue to be allocated using their own formulas and the business rates retention scheme means that some areas receive more or less from this source. As a result, the change in grant revenues seen from year to year continues to vary quite a lot across areas – as shown in each of the right-hand panels of Figure 5.3.

5.2 Changes to council tax revenues

Changes in council tax revenues depend on changes in council tax rates and changes in the tax base – that is, the number of properties on which council tax is paid and the number of people living in them.

Each year since 2011–12, councils in England have been offered an additional grant if they did not increase council tax rates in cash terms. The size of the grant that councils have been offered if they froze council tax rates has varied from year to year, and consequently so has the proportion of councils choosing to take it up. In 2011–12, a payment equivalent to a 2% council tax increase was offered and all councils chose to freeze council tax and take up the grant. The freeze grant offered was equivalent to a 2.5% increase in council tax rates in 2012–13 and 1% in 2013–14 and 2014–15.¹⁶ In 2014–15, 60% of councils froze council tax rates.¹⁷

In this subsection, we examine how council tax revenues changed in each local authority between 2009–10 and 2014–15. As described above, we include within council tax revenues those that are theoretically received from (but then effectively refunded to) people who qualify for council tax support. We also include revenue received from central government from the freeze grant.¹⁸

Figure 5.4 shows the change in council tax receipts (in real terms) for each type of local authority, and decomposes the change in receipts into that due to changes in council tax rates (assuming the base stayed the same) and that due to changes in the council tax base (at the new council tax rates). Excluding the council tax freeze grant, council tax receipts in England fell fractionally (by 0.5%) in real terms between 2009–10 and 2014–15. Council tax rates fell substantially – by 6.5% in real terms on average. However, this was almost exactly offset by an increase in the council tax base, which grew by 6.0% on average across England. London boroughs were most likely to have qualified for the council tax freeze grant in each year, and consequently saw council tax rates fall most in real terms – by 9.6%, although London boroughs also saw the largest increases in their

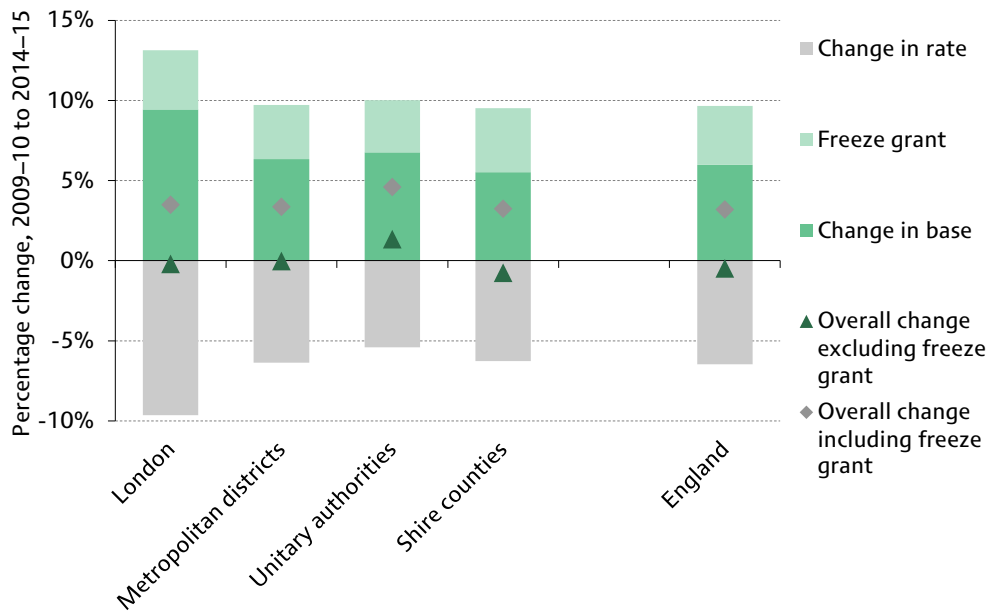
¹⁵ A. Gibson and S. Asthana, 'A tangled web: complexity and inequality in the English local government finance settlement', *Local Government Studies*, 2012, 38, 301–319.

¹⁶ See House of Commons Library, 'English local government finance: issues and options', Research Paper 14/43, 2014, <http://www.parliament.uk/briefing-papers/RP14-43.pdf>.

¹⁷ In 2012–13, 85% of authorities chose to freeze council tax, while in 2013–14 this fell to 61%. Data on the proportion of authorities accepting the council tax freeze grant each year since its introduction are available at <https://www.gov.uk/government/statistics/council-tax-levels-set-by-local-authorities-in-england-2014-to-2015>.

¹⁸ As mentioned above, inclusion of this means that the figures here overstate the structural increase in council tax revenues over this period, but we preferred this approach to instead including freeze grants with other grants in Section 5.1.

Figure 5.4. Contribution of base changes, rate changes and freeze grants to overall change in council tax receipts



Note: Excludes grants for mandatory housing benefit payments and education, public health, fire and police services and the Learning Disability and Health Reform Grant.

Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

council tax bases (9.4%).¹⁹ Gross council tax receipts (excluding freeze grants) actually fell most in shire counties on average, by 0.8%. However, including the freeze grant, council tax receipts went up on average for all types of local authority. Across England, the average change in council tax receipts including the freeze grant was 3.2%.

Taking into account population growth, even including the revenues from the freeze grant, council tax revenues per person fell by 0.7% on average. London boroughs saw the highest population growth on average, meaning that council tax revenues per person in London fell by 3.6% on average, whereas council tax revenues per person actually increased by 1.0% on average in unitary authorities.

5.3 Charging for services

Up to this point, the analysis has focused on net service spending, which is the total amount local authorities spend on each service net of any income they receive from providing the service. This service income includes, for example, parking charges, congestion charges, and charges for social care provided or commissioned by local authorities. In 2009–10, local government service income amounted to 35.5% of gross service expenditure. Of this, 40.4% came from fees and charges and the remainder came from other sources of service income – such as local authorities’ commercial property portfolios.

¹⁹ Section 6 discusses one reason why London boroughs may have been the most likely to qualify for the freeze grant. Specifically, London boroughs on average received the smallest share of revenues initially from council tax; therefore, freezing (or not) council tax rates would have had a smaller effect on their overall revenues than for other authorities for which these receipts were a more important revenue stream.

Table 5.2. Changes in gross service expenditure per person and its components, 2009–10 to 2013–14

	Percentage change in real terms per person, 2009–10 to 2013–14			Percentage of gross service spending from service income 2009–10 2013–14	
	Net service spending	Service income	Gross service spending	2009–10	2013–14
Social care	-7.4	-12.8	-8.9	20.9	20.0
Transport	-33.8	-17.8	-29.3	31.5	36.6
Environment and refuse	-10.9	-8.4	-10.8	19.3	19.8
Housing	-33.0	-26.0	-31.3	30.9	33.3
Culture	-27.0	-21.5	-25.7	34.9	36.9
Planning and development	-47.1	-18.7	-38.1	33.7	44.2
Library	-24.1	-34.2	-25.4	10.7	9.5
Regulation and safety	-37.1	-3.1	-24.9	38.3	49.4
Central services	-24.5	-16.8	-20.0	75.3	78.4
Total (excluding education, public health, police and fire)	-18.8	-15.7	-18.3	35.5	36.6

Note: 2015–16 prices.

Source: Local government expenditure and revenue out-turns, available at

<https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

One way that local authorities may have coped with the reduction in their revenues without reducing local service provision is by increasing service income. This would result in falls in *net* service spending without the same falls in *gross* service spending. A report by the Audit Commission found that 76% of STCCs reported increasing fees and charges for services to cope with the cuts to their spending power.²⁰ However, increasing rates for fees and charges does not necessarily imply that total revenues raised from fees and charges will also increase. Revenues might go down even if rates charged for individual services go up, for at least two reasons. First, some people may be deterred from using the service by the higher charge. Second, within a given service area, the impact of increasing rates for some aspects of the service might be offset by closures of other aspects of the service that previously provided service income. (Ceasing to provide a service that was previously charged for may nonetheless have a positive effect on the local authority's balance sheet if the charge made did not cover the full cost of providing the service.)

Table 5.2 shows the average change in service income per person for each service area from 2009–10 to 2013–14, the latest year for which data on service income are available, and compares changes to gross service expenditure with net service expenditure. Perhaps surprisingly, service income fell on average in all service areas over this period.

For most of the service areas, the fall in service income was similar to the fall in net service spending, meaning that service income is similarly important now to what it was

²⁰ Audit Commission, *Tough Times 2013*, November 2013, available at <http://www.audit-commission.gov.uk/2013/11/toughtimes2013/>.

in 2009–10 for funding gross spending. However, a few areas show a slightly different pattern. Service income now funds 49.4% of gross spending on regulation and safety, compared with 38.3% in 2009–10. This has allowed local authorities to cut the amount of public funding devoted to this function by 37.1%, while only cutting the overall spending on the service by 24.9%. A similar phenomenon is seen for planning and development. Social care spending shows the reverse pattern – the level of public funds devoted to this item of spending (i.e. net service spending) has been cut by 7.4% but service income has fallen by more (12.8%).

Table 5.3 shows the change in real revenue from the 10 fees and charges that raised the most revenue in 2009–10. Revenues from the majority of these fell, but four services stand out. In contrast to the overall picture for social care service income, revenue from fees and charges for social care for those aged 65 and over increased despite net spending being cut and service income from social care falling overall, suggesting this is one area where local governments have raised additional revenues. Revenues from on-street parking were constant in real terms, while revenues from fees and charges for cemetery, cremation and mortuary services and for development control services increased significantly in real terms.²¹ These findings suggest that local authorities were most successful at raising revenues from fees and charges in service areas where the demand for the services is relatively stable over time and/or the local authority is a monopoly provider of the service.

Table 5.3. Revenues from fees and charges, 2009–10 to 2013–14

	Revenue from fees and charges (£ million)		Percentage change
	2009–10	2013–14	
Total	29,026	25,495	-12.2
<i>Of which:</i>			
Social care for over-65s	2,177	2,272	+4.4
On-street parking	767	767	+0.0
Off-street parking	673	622	-7.6
Sports and recreation facilities	425	376	-11.5
Congestion charging	352	244	-30.7
Social care for adults under 65 with learning disabilities	349	309	-11.6
Economic development	274	185	-32.4
Development control	248	330	+33.2
Cemetery, cremation and mortuary services	231	257	+11.4
Theatre and public entertainment	186	154	-17.0
Other	23,095	19,940	-13.7

Note: 2015–16 prices.

Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

²¹ Development control services include, among other things, planning applications.

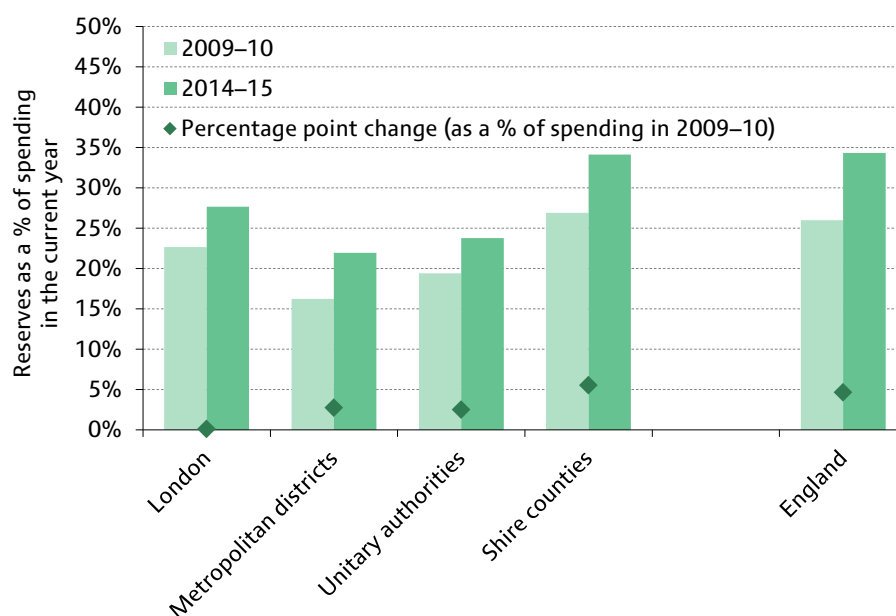
It is important to note, however, that service income may not capture all of the ways open to local governments to cope with reductions in revenue. For example, service income from providing transport services does not include transport fares, which (as was mentioned in Section 3) have been important in maintaining transport spending in a number of areas.

5.4 What has happened to local authority reserves?

The difference between local authorities' spending and revenues is made up by their reserves: if over the course of the year they spend less than their revenues, they build up their reserves; if they have reserves to draw on, they may spend more than their revenues in other years. As the Office for Budget Responsibility has noted, on the whole, rather than using reserves to maintain spending in the face of cuts to their revenue sources, local governments on average added to their reserves in each year from 2010–11 to 2014–15. This is despite the fact that – at the start of each year – they have budgeted to use reserves to finance spending. In other words, they have in each year underspent against their original budgets.²²

The use of reserves, however, differs across types of local authority. Figure 5.5 shows the level of local authority reserves as a proportion of net spending in 2009–10 (shown by the light green bar) and also the percentage change (as a proportion of initial net spending) between 2009–10 and 2014–15 (shown by the dark green diamond) for each type of local authority. (For reference, the figure also shows the level of reserves in 2014–15 as a share of spending in that year – the dark green bars.) Reserves increased for all types of local authority between 2009–10 and 2014–15, but the increase as a proportion

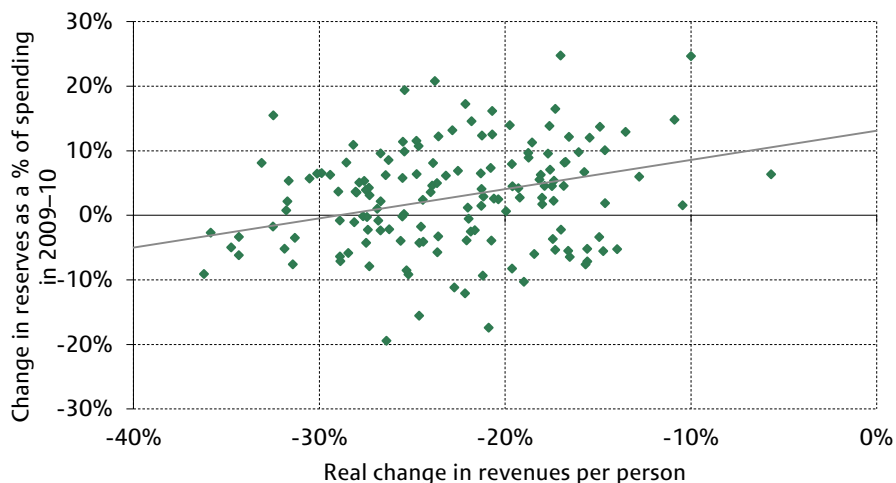
Figure 5.5. Reserves as a proportion of total spending and change over time



Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

²² Office for Budget Responsibility, *Economic and Fiscal Outlook: December 2014*, 2014, http://cdn.budgetresponsibility.independent.gov.uk/December_2014_EFO-web513.pdf.

Figure 5.6. Relationship between change to revenues and change in reserves, 2009–10 to 2014–15



Source: Local government expenditure and revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

of initial spending ranged from 0.1 percentage points for London boroughs to 5.6 percentage points for shire counties. Shire counties also had the largest reserves in proportion to annual spending originally.

There were also considerable differences between individual local authorities within these broad groupings. Although on average local authorities increased reserves over the period, 38% of authorities actually drew on reserves to fund spending. Figure 5.6 plots the change in reserves as a percentage of initial spending against the percentage cut to revenues that the authority faced, along with a line of best fit through the data points. This shows that, on average, the higher the cut to revenues faced by the authority, the more likely it was to draw on reserves to fund spending. However, there remained considerable variation around this average picture. Many local authorities that faced cuts to their revenues of more than 30% still increased their reserves over the period: for example, Oldham council experienced a 33% cut to its revenues in real terms but increased its reserves by 16% of its initial spending level.

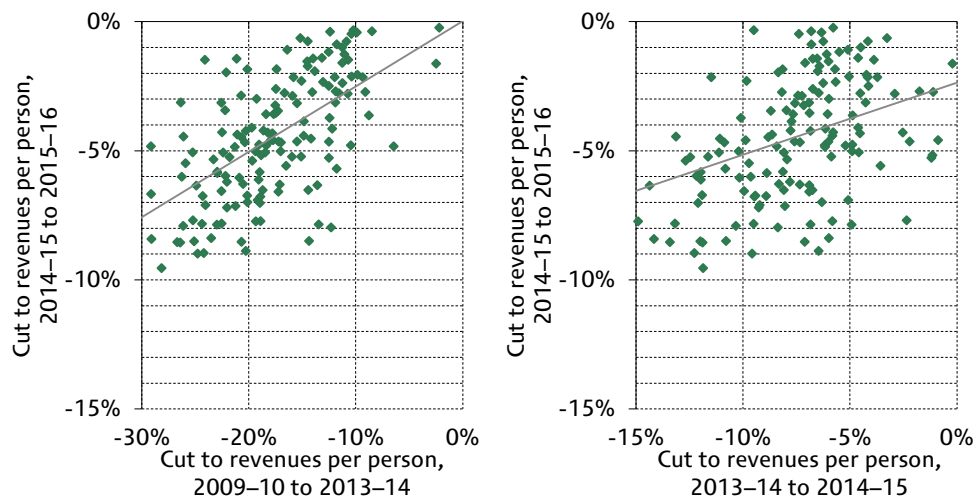
6. Prospects for local authority spending in 2015–16

Local authorities have not yet published their budgets for 2015–16, so the size of cuts to service spending in 2015–16 remains uncertain, as does the allocation of these cuts across service areas. However, DCLG has published provisional figures for the spending power of each local authority in 2015–16, based on the grants that it has allocated to each authority and an assumption that councils freeze council tax rates and receive a council tax freeze grant of 1% of council tax revenues.²³ On this basis, local authorities are expected to face further real cuts to their revenues per person²⁴ of 4.1% in 2015–16, comprised of a 1.5% cut to council tax per person and a 6.1% cut to central government

²³ Available at <https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2015-to-2016>.

²⁴ Excluding specific grants for mandatory housing benefits and education, public health and revenues of fire and police authorities.

Figure 6.1. Relationship between cuts to revenues between 2014–15 and 2015–16 and earlier cuts to revenues



Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>, and provisional spending power in 2015–16, available at <https://www.gov.uk/government/publications/change-in-spending-power-provisional-local-government-finance-settlement-2015-to-2016>.

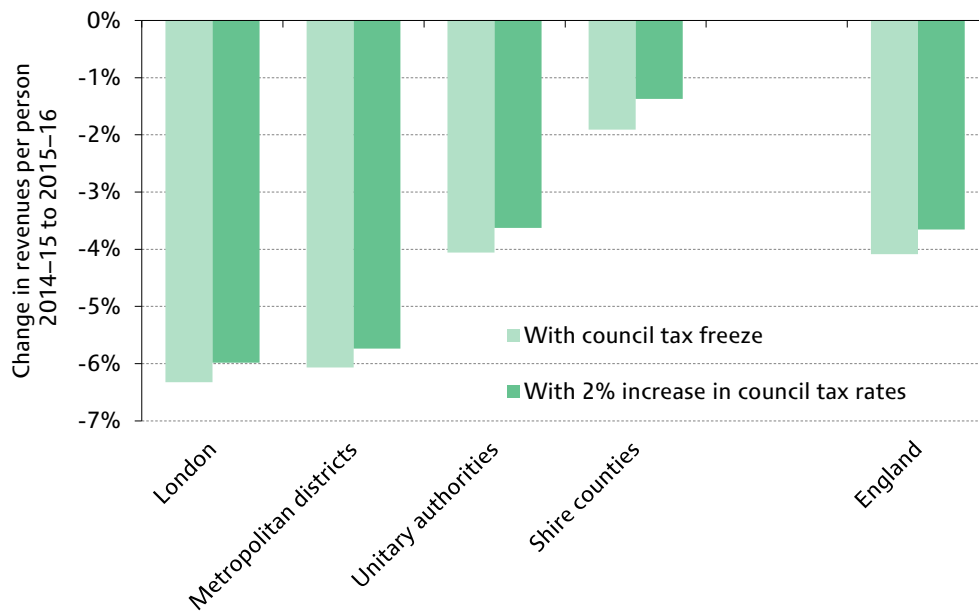
grants per person. This would increase the cumulative cut since 2009–10 to 26.1% per person.

There is a strong correlation between the size of cuts seen by local authorities over the past five years and those faced by local authorities in 2015–16, as shown in Figure 6.1. Similarly, the pattern of the differences in the cuts between types of local authority seen over the last five years (described in Section 5.1) continues into 2015–16: London faces a cut to revenues per person of 6.3%, which compares with 1.9% for shire counties.

Given that, in recent years, many councils have chosen to increase council tax rates rather than accept the freeze grant, it seems unlikely that all councils will choose to freeze council tax rates in 2015–16. However, the scope for local authorities to increase overall revenues by increasing council tax depends on the proportion of their spending financed by council tax: a given increase in council tax will increase total revenues more for a council that receives a greater fraction of its revenues from council tax. Figure 6.2 shows the effect of increasing council tax rates by 2% on the cuts that would be faced in 2015–16 for different types of local authorities. (This is the maximum increase that would be possible without requiring a local referendum.) By increasing council tax rates in this way, authorities would forfeit the council tax freeze grant equivalent to 1% of frozen council tax revenues, and would therefore see overall council tax revenues increase by just 1%.

For shire counties, increasing council tax rates by 2% would increase overall revenues per person by 0.5% and mean that the overall cut to revenues per person next year would be reduced from 1.9% to 1.4%. For London boroughs and metropolitan districts, increasing council tax rates by 2% would increase revenues per person by only 0.3%, meaning that they would still face overall cuts to revenues per person of 6.0% and 5.7%, respectively. This may explain why London boroughs have in each year other than 2013–

Figure 6.2. Effect of a 2% increase in council tax rates on cuts to revenues in 2015–16



Note: Assumes that by increasing council tax revenues, councils forfeit a council tax freeze grant equivalent to 1% of frozen council tax revenues, and therefore council tax receipts increase by 1%.

Source: Local government revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>.

14 been the most likely to accept the council tax freeze grant, while unitary authorities have been the least likely to do so.²⁵

7. Future challenges

As just described, under current plans, local authorities will face further cuts to real spending per person of 4.1% in 2015–16, and cuts will on average be highest in the areas that have already seen the largest cuts over the last five years. But the cuts in 2015–16 are probably not the end of the story. Using the same methodology and assumptions as in Crawford et al. (2014), we estimate that, under the coalition government’s current plans, departmental current spending would need to be cut by 18.5% in real terms from 2015–16 to 2019–20, equivalent to a cut to per-capita spending of 21.3%.²⁶ However, if spending on the NHS, official development assistance and schools continued to be protected, cuts to unprotected areas would need to be 38.8% (equivalent to 40.9% per capita). But, as Crawford et al. (2014) also note, the three main UK political parties have all announced fiscal rules that would allow them to cut spending by less than current plans if they wished. Their estimates suggest that cuts to unprotected departments’

²⁵ Data on the proportion of authorities accepting the council tax freeze grant each year since its introduction are available at <https://www.gov.uk/government/statistics/council-tax-levels-set-by-local-authorities-in-england-2014-to-2015>.

²⁶ See R. Crawford, C. Emmerson, S. Keynes and G. Tetlow, ‘Fiscal aims and austerity: the parties’ plans compared’, IFS briefing note BN158, 2014, <http://www.ifs.org.uk/uploads/publications/bns/BN158.pdf>. Official population projections are from the Office for National Statistics, <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Projections#tab-data-tables>. These projections suggest that the population of England will grow by 3.6% between 2014–15 and 2019–20.

current spending might need to be 25.5%, 11.0% and 10.6% for the Conservatives, Labour and Liberal Democrats, respectively.

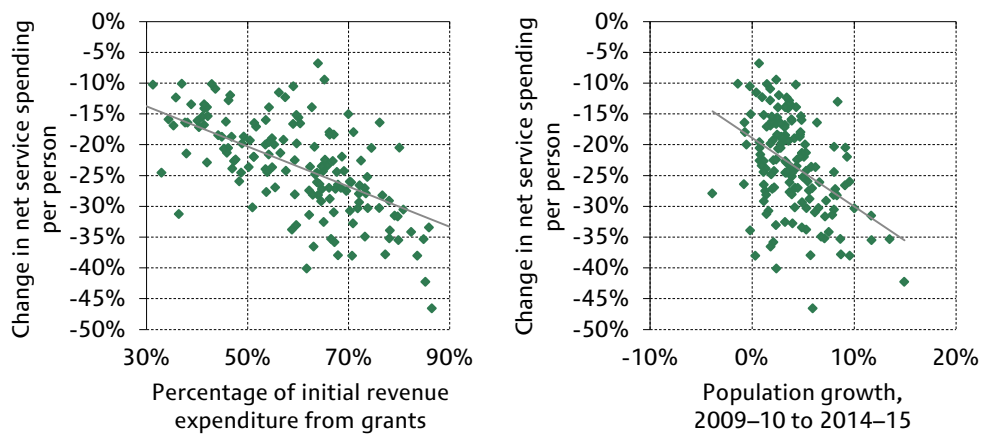
The cuts will be difficult to deliver

Over this parliament, virtually all local authorities have chosen to cut social care spending by less than other service areas. Social care's relative protection saw it increase as a proportion of non-education, non-public-health, non-police, non-fire spending by STCCs – from 47.2% to 53.1% between 2009–10 and 2014–15. Pressures on social care spending are likely to continue growing over the next parliament as the population aged 75 and over in England is projected to grow by 13.9%; this compares with growth of 9.1% seen between 2009–10 and 2014–15.²⁷ However, the more social care continues to be protected, the higher the cuts for other spending areas will need to be.

Future cuts are unlikely to be evenly distributed and may well hit hardest those areas that have already seen the deepest cuts

Under the new settlement funding assessment, all local authorities face the same percentage cut to the main elements of their grant funding each year. This amounts to a greater cut to overall spending power for local authorities that are more reliant on revenues from central government grants than on revenues from council tax – in other words, those that have least revenue-raising capacity. These areas have also seen the largest average cuts over the last five years – shown in the left-hand graph in Figure 7.1. These councils tend to be the most deprived London boroughs, metropolitan districts and unitary authorities.

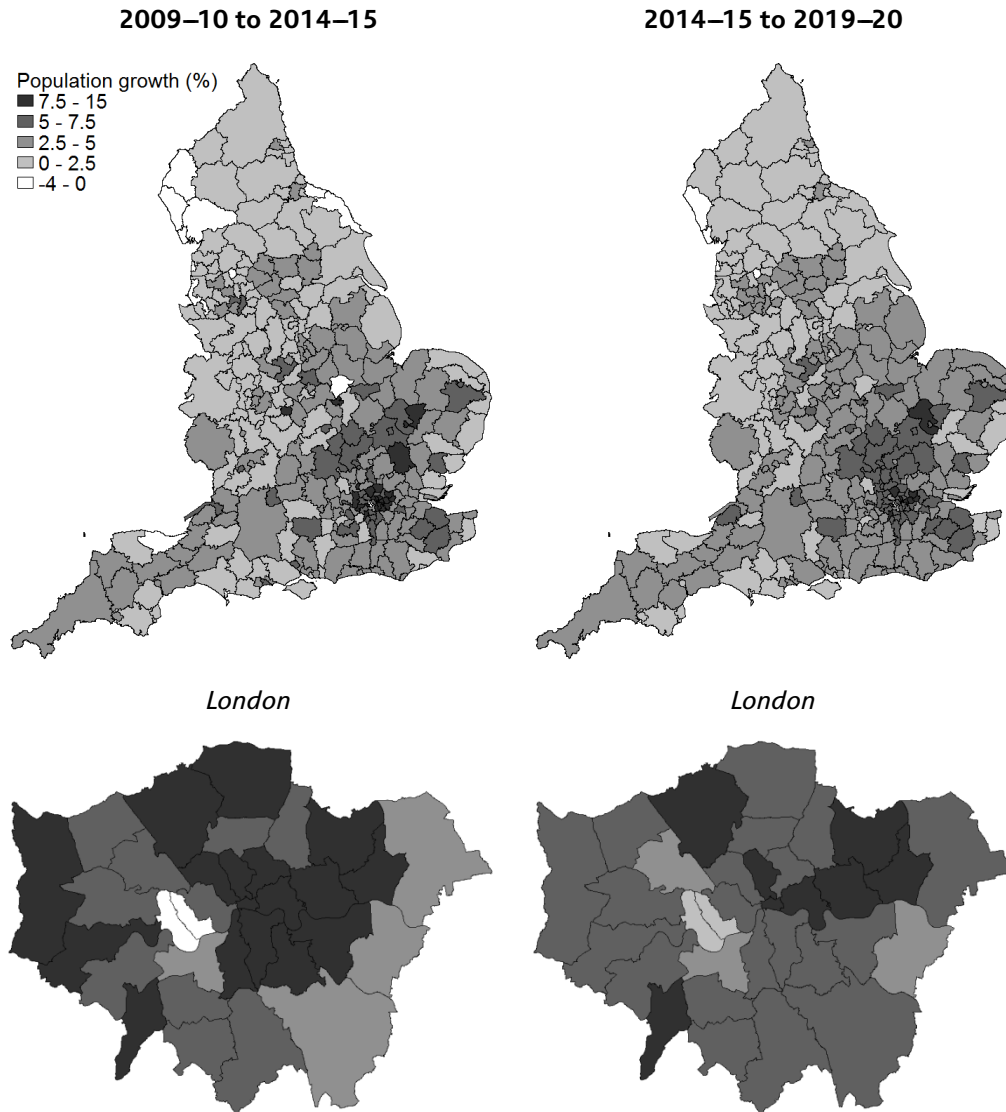
Figure 7.1. The relationship between characteristics of local authorities and the size of the spending cuts per person, 2009–10 to 2014–15



Note: Net service spending shown here excludes public health, education, police, and fire and rescue services. Source: Data on the cuts to local government spending and the proportion of initial revenue expenditure from grants come from local government expenditure and revenue out-turns, available at <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>. Data on population are from the Office for National Statistics, population estimates available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Estimates> and population projections available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Sub-national+Population+Projections>.

²⁷ ONS population estimates and projections, available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Estimates> and <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Sub-national+Population+Projections>, respectively.

Figure 7.2. Past and projected population growth across England



Source: Office for National Statistics, population estimates available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Estimates> and population projections available at <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Sub-national+Population+Projections>.

The settlement funding assessment also no longer takes account of changing local needs of authorities. For example, if one area experiences higher population growth than another over the next few years, this will not be factored into the allocation of spending in future years. As a result, those areas that see larger population growth over the next five years will see larger cuts in per-person spending (all else equal) than those that experience lower levels of population growth.

Figure 7.2 shows official projections for population growth across England between 2014–15 and 2019–20, as well as figures for what population growth is estimated to have been between 2009–10 and 2014–15. This shows that London boroughs could be particularly affected: Office for National Statistics (ONS) population projections suggest that the eight local authorities with the fastest-growing populations over the next five

years will be London boroughs, with population growth ranging from 7.6% to 10.8%.²⁸ These figures compare with population growth across England as a whole of 3.6%.²⁹ The areas that are predicted to see the most rapid population growth over the next five years are also typically the same areas that have seen the fastest population growth between 2009–10 and 2014–15. As the right-hand graph in Figure 7.1 shows, those areas saw larger average cuts to spending per person between 2009–10 and 2014–15.

Faced with cuts to central government grants, local authorities have a choice between delivering spending cuts on this scale and trying to boost revenues by raising council tax rates. As grants continue to be cut, council tax receipts will finance an ever greater share of local spending. However, those councils most able to raise significant council tax revenues are those that are least reliant on grants – but, as a result, these are also the areas where the cuts to their revenues faced will be least severe (since council tax receipts are likely to fall less quickly than central government grants). In addition, local authorities' capacity to raise council tax is constrained by the fact that any increase in council tax rates that exceeded some cap (which has been set at 2% in recent years) would have to be approved by a local referendum. Easing this cap is one policy option available to whoever forms the next government if they want to make it easier for local authorities to avoid further spending cuts.

There are also likely to be differences between authorities in the extent to which they can encourage local business development, and thus reap the rewards from the business rates retention scheme.

Another way?

If a future government wanted to ensure that future cuts to local authority spending did not fall disproportionately on those authorities that have already experienced the largest cuts in this parliament – that is, those that were initially most grant-reliant and had higher levels of population growth and deprivation – it would need to reform the current settlement funding arrangements. This is because the new system of allocating funding effectively applies the same percentage cut to each area's base grant level. This translates into a larger cut in spending power for areas with less local revenue-raising capacity and it explicitly does not take into account changing relative needs across areas.

Some form of 'equalisation' – that is, that the same level of council tax should provide the same level of service in any given local authority – has theoretically underlain the system of funding local government since the Second World War but was formally ceased with the adoption of the new funding allocation system.³⁰ However, while this sounds like a major departure, it is far from clear that the funding allocation mechanism that was in place up to 2013 achieved any such equalisation either in practice (as the analysis in Section 5.1 demonstrates). Therefore, some alternative approach would likely be required if one wanted to ensure that the required spending cuts were more evenly distributed.

²⁸ These are: City of London (10.8%), Tower Hamlets (10.2%), Barking and Dagenham (9.6%), Redbridge (8.9%), Barnet (7.8%), Islington (7.7%), Kingston upon Thames (7.7%), and Newham (7.6%).

²⁹ Authors' calculations using ONS population projections, available at <http://ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Projections#tab-data-tables>.

³⁰ Communities and Local Government Select Committee, 'Local Government Finance Settlement 2014–15', evidence, 27 January 2014, Q7 and Q8, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/local-government-finance-settlement-201415/oral/5640.html>.