



National Audit Office

What's happening to the local state in England? Local government, financialisation, and regulation

Local government finances and governance

**Abdool Kara
LSE Workshop
June 2022**

NAO Reports



Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Local authority investment
in commercial property

HC 45 SESSION 2019-20 13 FEBRUARY 2020



Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Local authority governance

HC 1865 SESSION 2017-2019 15 JANUARY 2019



The local government finance
system in England: overview
and challenges

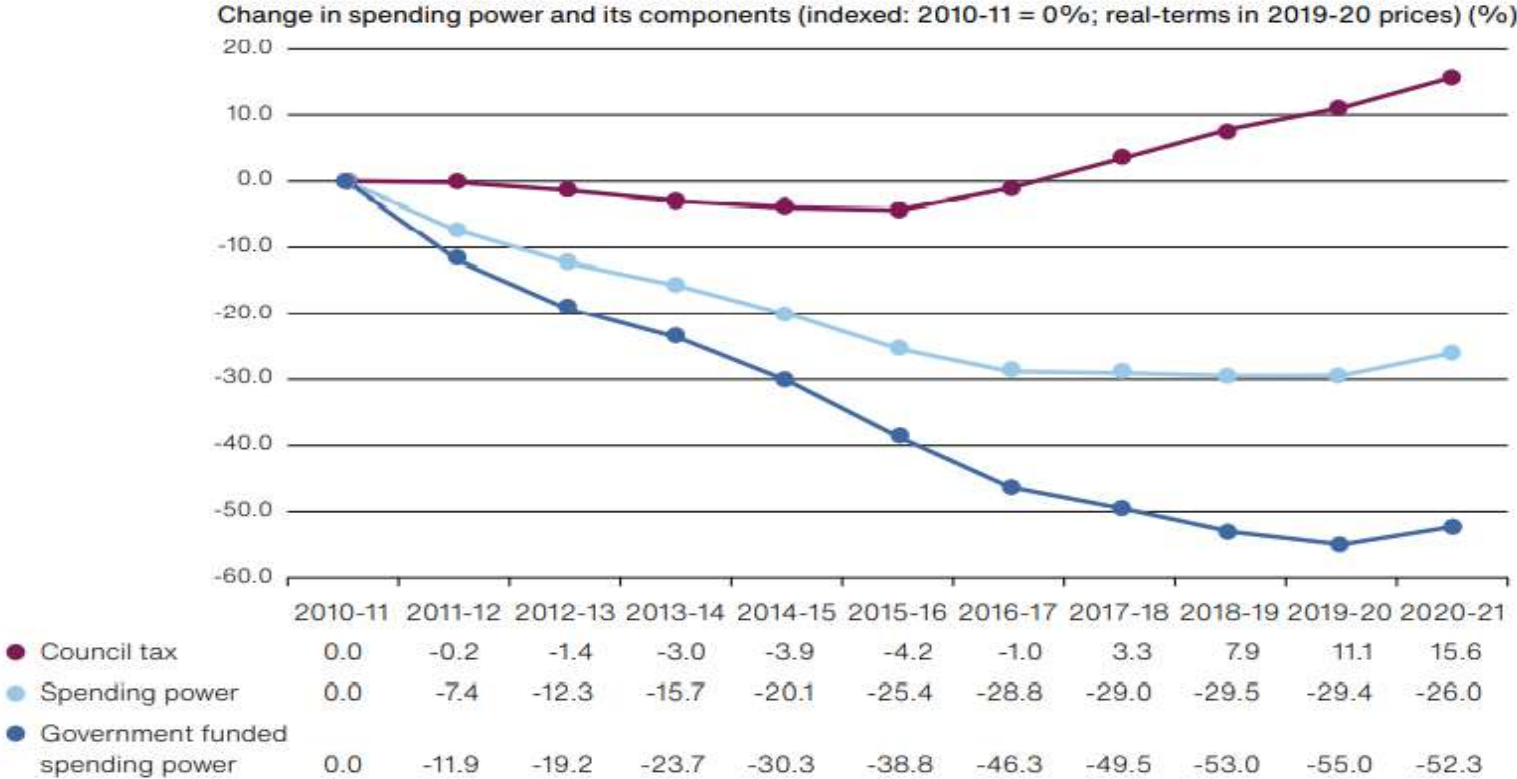
REPORT
by the Comptroller
and Auditor General

SESSION 2021-22
10 NOVEMBER 2021

Change in Local Government spending power – 2010/11 to 2020/21

Change in components of spending power in English local authorities 2010-11 to 2020-21

Government-funded spending power has reduced by more than 50% since 2010-11



Note

1 Spending power is a government measure of the revenue resources made available to local authorities (from 2015-16 government refers to 'core spending power'). We exclude funding for public health grant, the original Better Care Fund and NHS funding for spend on social care that also benefits health. This funding was removed from the Department's definition of spending power from 2016-17 onwards and we remove this funding from the time series as a whole to improve consistency. Similarly, we use a weighted index to enable a like-for-like comparison despite significant changes in the duties placed on local authorities and the way financial data were reported in the period 2010-11 to 2015-16. Accordingly, the index cannot be used to estimate absolute changes in funding.

Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

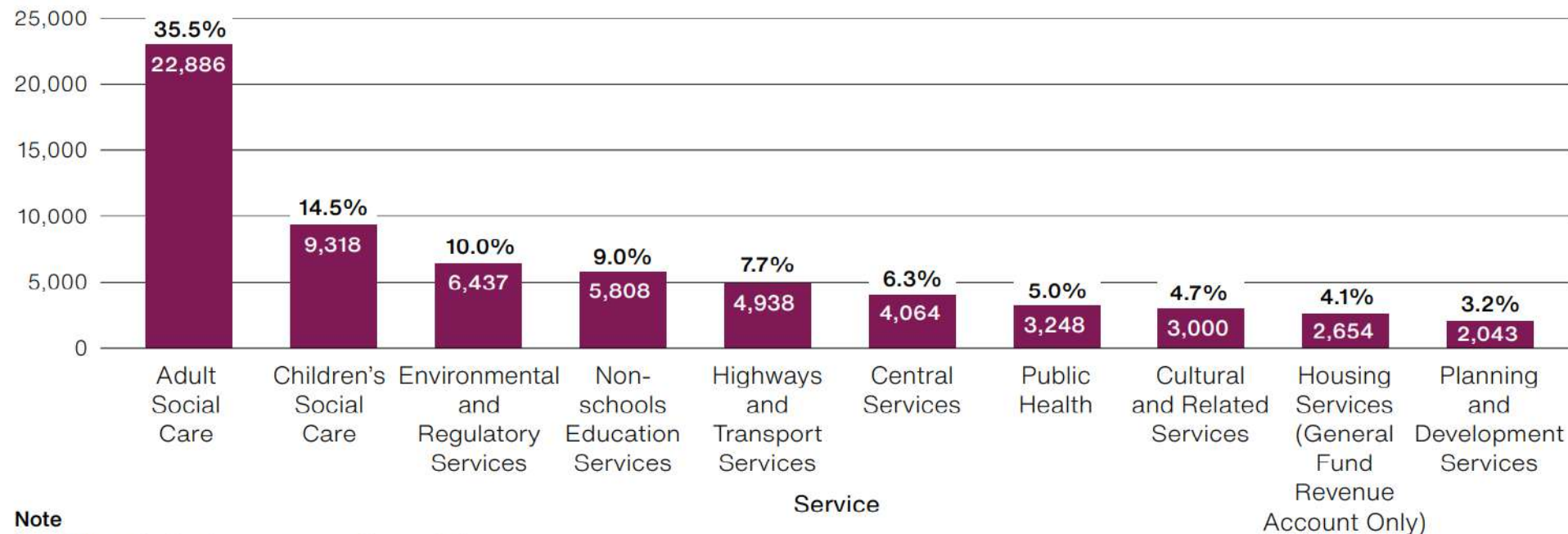
- Through austerity, government-funded spending power fell by over 50% through cuts in both Revenue Support Grant and special & specific grants
- Council tax income rose by around 15%, including the social care precept
- The net effect for local government was a fall in overall spending power of almost 30%, with a slight recovery through Covid
- All of this through a period of rising demand for services

Revenue expenditure by service area 2019/20

Revenue service expenditure by English local authorities, gross of sales, fees, and charges, 2019-20

Social care accounted for the largest share (around 50%) of revenue spending by service

Expenditure gross of sales, fees and charges (£m)



Note

1 This analysis of revenue spending excludes:

- significant levels of schools expenditure, where this funding passes through local authorities to be spent by schools themselves. (However 'Non-schools education services' such as central support services are included.) Please see Appendix: Methods for a full explanation; and
- revenue spending on council-owned housing stock. Where local authorities have such holdings, they account separately for them in a ringfenced Housing Revenue Account.

Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

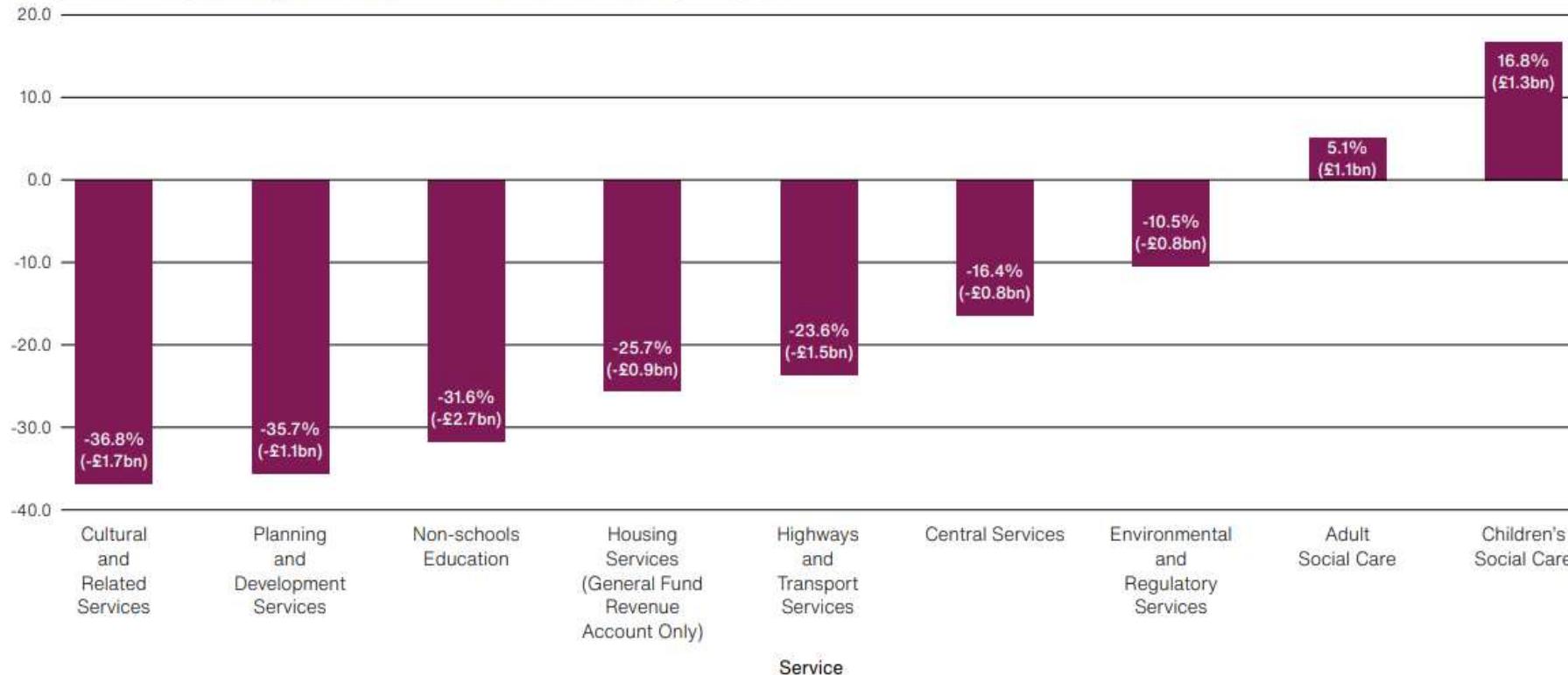
- Social care (both adults and children's) accounts for 50% of revenue spending on average – much higher for some authorities
- This disparity with other service areas will increase further with the new social care arrangements coming in soon

Change in revenue expenditure by service area – 2010/11 to 2019/20

Change in service spend by English local authorities, gross of sales, fees, and charges, 2010-11 to 2019-20

Cultural and planning services have both seen spending reductions of more than 35% since 2010-11

Change in service expenditure (indexed: 2010-11 = 0%, real terms in 2019-20 prices) (%)



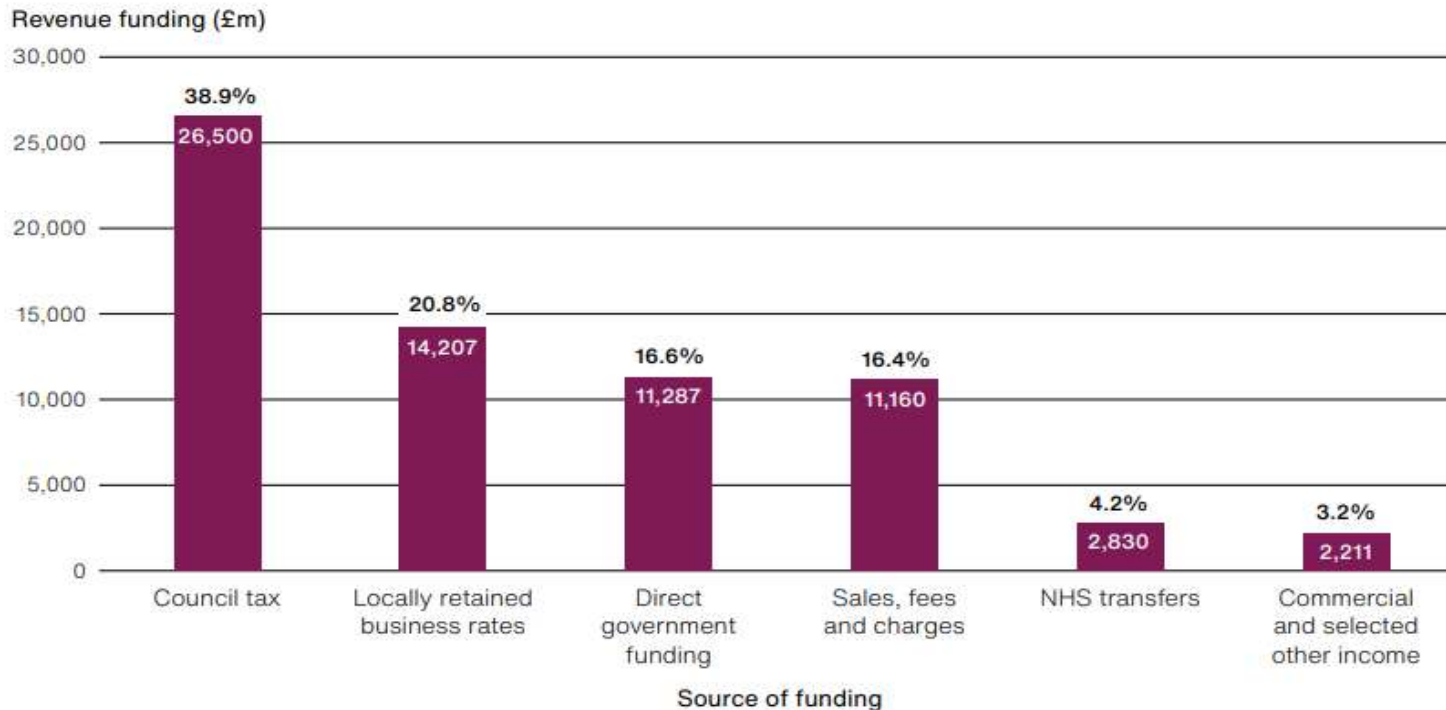
Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

- To pay for increasing social care costs, all other services have taken significant cuts
- This is especially the case for non-statutory services
- Though this hides to some degree the ability of authorities to raise funding for some services, eg planning, non-schools education through fees and charges

Sources of revenue funding 2019/20

Sources of revenue funding for English local authorities, 2019-20

Council tax accounted for almost 40% of revenue funding in year



Notes

1 Our analysis of revenue income excludes:

- front-line schools funding, such as Dedicated Schools Grant, which passes through local authorities to be spent by schools themselves; and
- revenue income from council-owned housing stock. Where local authorities have such stock, they account separately for them in a ringfenced housing revenue account.

2 The level of business rates income depends on changes in the income collected by each local authority, in addition to the government formula; accordingly it is shown separately from other government funding in the chart.

3 Unlike charts looking at change over time, public health is included here. This affects both government funding and sales, fees and charges.

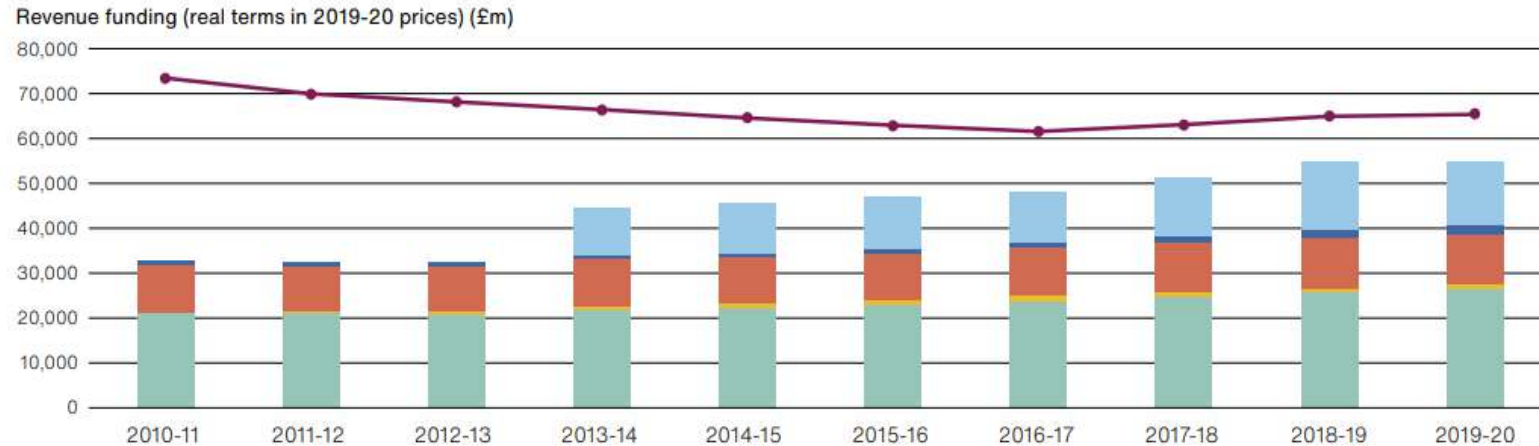
Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

- Council tax, including the social care precept, is now by far the largest contributor to local authority spend, on average
- Business rates retention and direct government funding are both identified as due for reform
- Any reform will likely have redistributive effects – perhaps these will be designed so as to have a ‘levelling up’ effect

Change in sources of revenue funding 2010/11 - 2019/20

Change in selected sources of revenue funding for English local authorities, 2010-11 to 2019-20

Income linked to local economies, such as council tax and business rates, has become more prominent as a share of funding since 2010-11



Income sources that change with local economic circumstances

Locally retained business rates

Commercial income and Community Infrastructure Levy

Sales, fees and charges

New Homes Bonus

Council tax

Overall change in these income sources since 2010-11

Overall change in these income sources since 2010-11 (excluding locally retained business rates)

Total of these income sources, NHS transfers and direct government funding (excluding public health)

Note

1 Figures are rounded. As a result, adding up sub-totals may not give the same number as shown for totals.

Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

- CT grew from around 30% of LG funding to around 40%
- Retained business rates grew from zero to around 22%
- Both are growth-dependent sources, creating winners and losers over time
- Also exposing public services to the vagaries of economic conditions, when demand is counter-cyclical

Borrowing and Minimum Revenue Provision – 2010/11 to 2019/20

Gross borrowing and minimum revenue provision across English local authorities, 2010-11 to 2019-20

While borrowing has increased since 2010-11, levels of minimum revenue provision are lower



Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Gross borrowing at 31 March (£bn)	50.2	58.1	58.8	57.9	58.7	59.8	62.9	69.0	74.5	82.4
Minimum revenue provision (£bn)	2.0	2.1	2.2	2.1	2.0	1.7	1.4	1.2	1.4	1.5

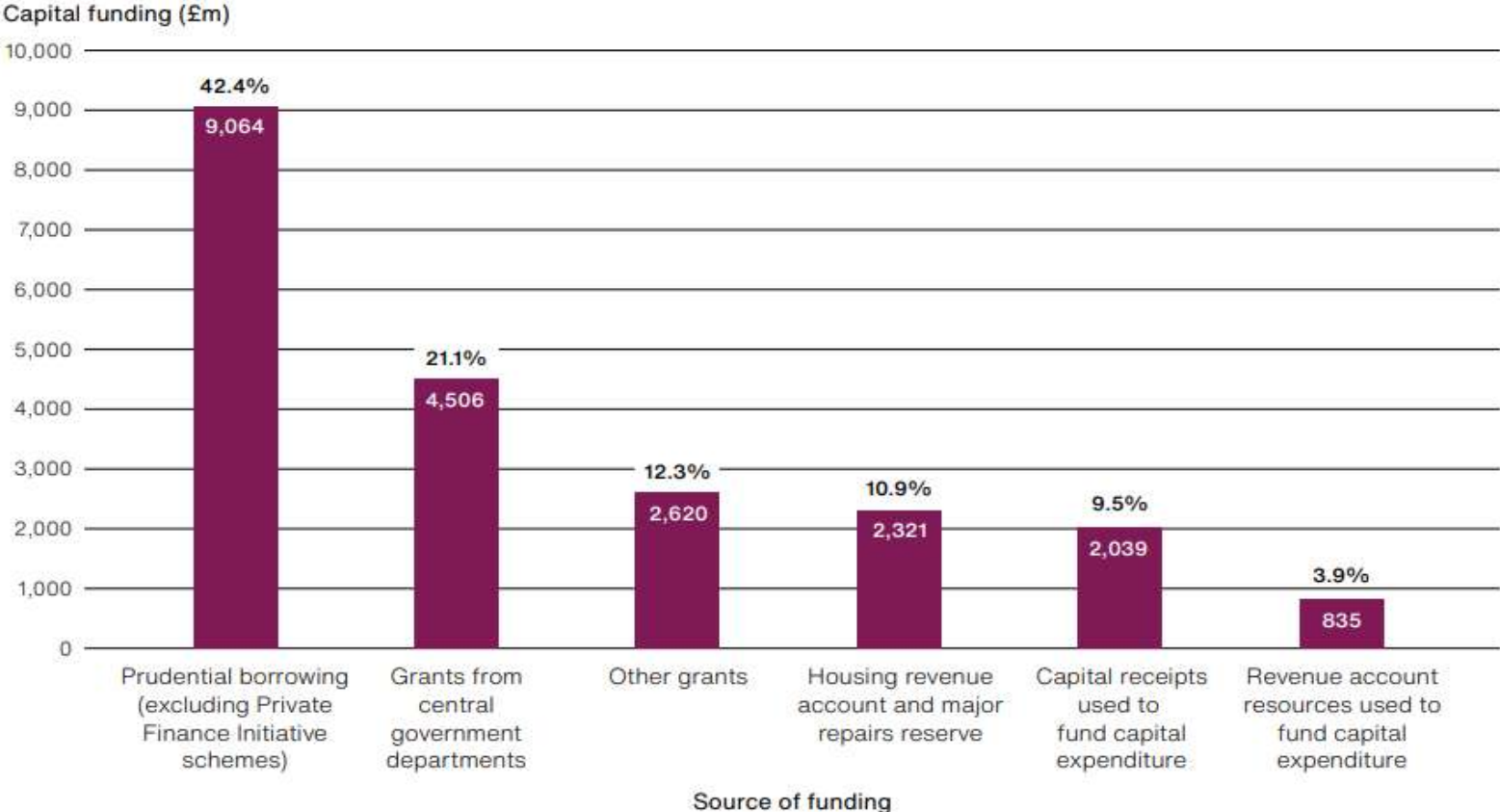
Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

- Finding new sources of income was a logical response by local authorities to austerity
- Which led to a significant ramping up of borrowing for commercial investment, weighted towards a small number of councils
- Yet not a concomitant increase in MRP – indicating a creative interpretation of the rules by many
- In some cases, poor governance and insufficient skills led to poor decision making and risk-taking

Sources of capital funding – 2019/20

Sources of capital funding for English local authorities, 2019-20

Most capital spending in year (around 64%) was resourced by borrowing and central government grants



Notes

- Capital expenditure is resourced collectively and it is not possible to identify and fully exclude individual elements from the data. Accordingly, this chart includes the resourcing of education and housing capital spend. For this reason, this chart covers a wider range of services than the revenue spending charts, and the total spending covered in this chart does not match the total spending on pages 9 and 10.
- Figures are rounded. As a result, adding up sub-totals may not give the same number as shown for totals.

Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities data

- The majority of capital investment continues to be PWLB funded, though this has decreased
- The previous ease of PWLB lending now being tightened by a combination of HMT, DLUHC & Cipfa
- Other protections are being put in place, eg having a public investment strategy, being clear what the investment is for (eg not out of borough), and new options through the Levelling Up Bill, eg enforced sale of assets directed by the SoS

NAO Local Authority Governance report - Conclusions

- **Risk profiles have increased** in many authorities with reduced spending and generating new income in response to funding and demand pressures.
- **Local checks and balances need to be effective** in a more complex and less well-resourced context.
- Effective governance is **key to ensuring financial control**.
- Our survey of **external auditors raised concerns about the effectiveness of a range of internal checks and balances**.
- While s151 officers as a whole are positive about delivering their role, those that **do not report directly to their chief executive are less positive**.
- There is a **sizeable group of local authorities with multiple governance issues**.
- Auditors concluded that in 2017-18 nearly **one in five single tier and county councils did not have adequate arrangements in place to secure value for money**.
- Over half of the **section 151 officers** from single tier and county councils responding to our survey indicated that they **wanted changes to be made to external audit**.

Meanwhile - principal local authorities in England 1974 onwards...

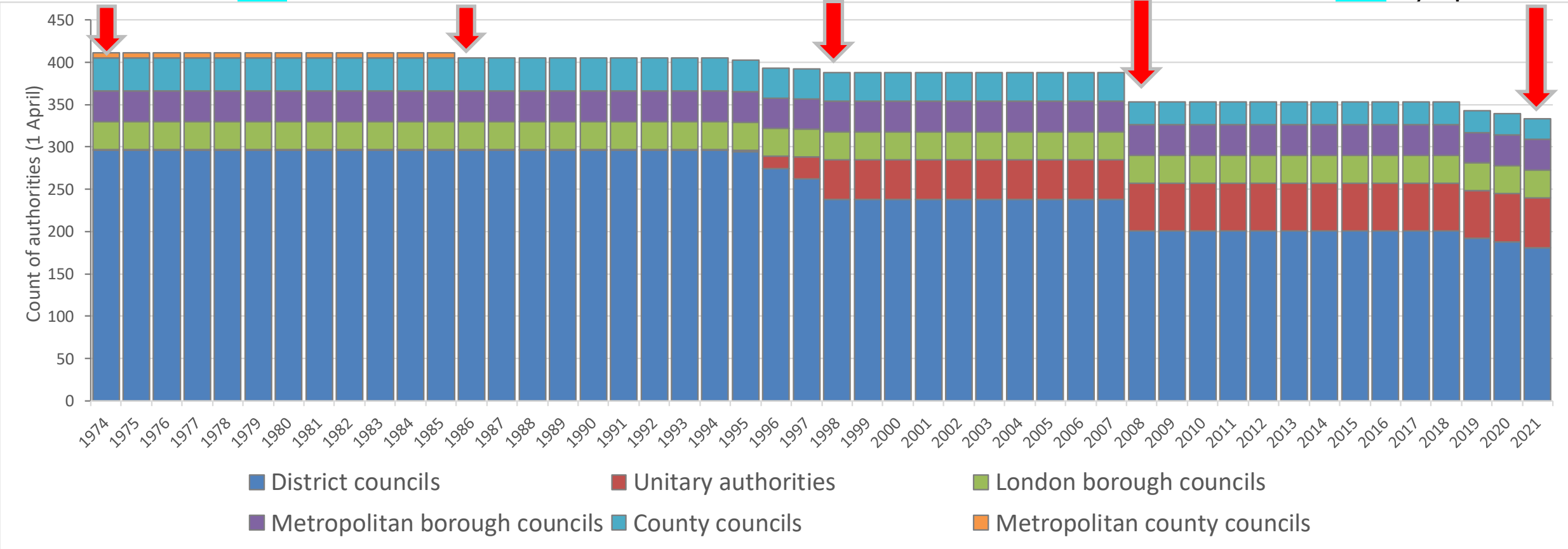
1974
Reorganisation
 led to reduction
 from **1,245**
 authorities to **411**

1986: Abolition
 of the 6
 Metropolitan
 County
 Councils

1996-1997
Reorganisation:
 Authorities reduced
 to **388**

2009
Reorganisation:
 Authorities
 reduced to **353**

2019 onwards:
 Dorset, Bucks,
 Northants etc..
 Authorities reduced
 to **333** by Apr 2021



Thank you



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