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

Local government finances and governance

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LSE Workshop
June 2022
Local authority investment in commercial property

Local authority governance

The local government finance system in England: overview and challenges
Change in Local Government spending power – 2010/11 to 2020/21

• 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

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

Change in spending power and its components (indexed: 2010-11 = 0%; real-terms in 2019-20 prices) (%)

-60.0 -50.0 -40.0 -30.0 -20.0 -10.0 0.0 10.0 20.0

- Council tax:
  - 2010-11: 0.0%
  - 2011-12: -0.2%
  - 2012-13: -1.4%
  - 2013-14: -3.0%
  - 2014-15: -3.9%
  - 2015-16: -4.2%
  - 2016-17: -1.0%
  - 2017-18: 3.3%
  - 2018-19: 7.9%
  - 2019-20: 11.1%
  - 2020-21: 15.6%

- Spending power:
  - 2010-11: 0.0%
  - 2011-12: -7.4%
  - 2012-13: -12.3%
  - 2013-14: -16.7%
  - 2014-15: -20.1%
  - 2015-16: -25.4%
  - 2016-17: -28.8%
  - 2017-18: -29.0%
  - 2018-19: -29.5%
  - 2019-20: -29.4%
  - 2020-21: -26.0%

- Government funded spending power:
  - 2010-11: 0.0%
  - 2011-12: -11.9%
  - 2012-13: -19.2%
  - 2013-14: -23.7%
  - 2014-15: -30.3%
  - 2015-16: -38.8%
  - 2016-17: -46.3%
  - 2017-18: -49.5%
  - 2018-19: -53.0%
  - 2019-20: -55.0%
  - 2020-21: -52.3%

Note: 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
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

<table>
<thead>
<tr>
<th>Service</th>
<th>Expenditure gross of sales, fees and charges (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Social Care</td>
<td>35.5% 22,886</td>
</tr>
<tr>
<td>Children’s Social Care</td>
<td>14.5% 9,318</td>
</tr>
<tr>
<td>Environmental and Regulatory Services</td>
<td>10.0% 6,437</td>
</tr>
<tr>
<td>Non-schools Education Services</td>
<td>9.0% 5,808</td>
</tr>
<tr>
<td>Highways and Transport Services</td>
<td>7.7% 4,938</td>
</tr>
<tr>
<td>Central Services</td>
<td>6.3% 4,064</td>
</tr>
<tr>
<td>Public Health</td>
<td>5.0% 3,248</td>
</tr>
<tr>
<td>Cultural and Related Services</td>
<td>4.7% 3,000</td>
</tr>
<tr>
<td>Housing Services (General Fund Revenue Account Only)</td>
<td>4.1% 2,654</td>
</tr>
<tr>
<td>Planning and Development Services</td>
<td>3.2% 2,043</td>
</tr>
</tbody>
</table>

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
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 in 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

<table>
<thead>
<tr>
<th>Source of funding</th>
<th>Revenue funding (£m)</th>
<th>% of total revenue funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council tax</td>
<td>26,500</td>
<td>38.9%</td>
</tr>
<tr>
<td>Locally retained business rates</td>
<td>14,207</td>
<td>20.8%</td>
</tr>
<tr>
<td>Direct government funding</td>
<td>11,287</td>
<td>16.6%</td>
</tr>
<tr>
<td>Sales, fees and charges</td>
<td>11,160</td>
<td>16.4%</td>
</tr>
<tr>
<td>NHS transfers</td>
<td>2,836</td>
<td>4.2%</td>
</tr>
<tr>
<td>Commercial and selected other income</td>
<td>2,211</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

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

- 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

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

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