



What's happened and what's next: The outlook for local government finance

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District Councils' Network
Annual Conference

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@TheIFS



Economic
and Social
Research Council

COVID-19 and district councils



- District councils finances particularly affected in 2020-21
 - Particular reliance on SFCs and commercial income and impacts only partially compensated for
 - On average, 'unfunded' pressures amounted to 6.6% of pre-COVID budgets
- District councils may find themselves in a similar position again this year if SFCs and commercial income remain depressed
 - Forecast pressures for H1 > funding (so far) for entire year
- District councils went in to crisis in relatively good financial health
 - Only around 1-in-10 had reserves <50% of annual revenue expenditure pre-crisis

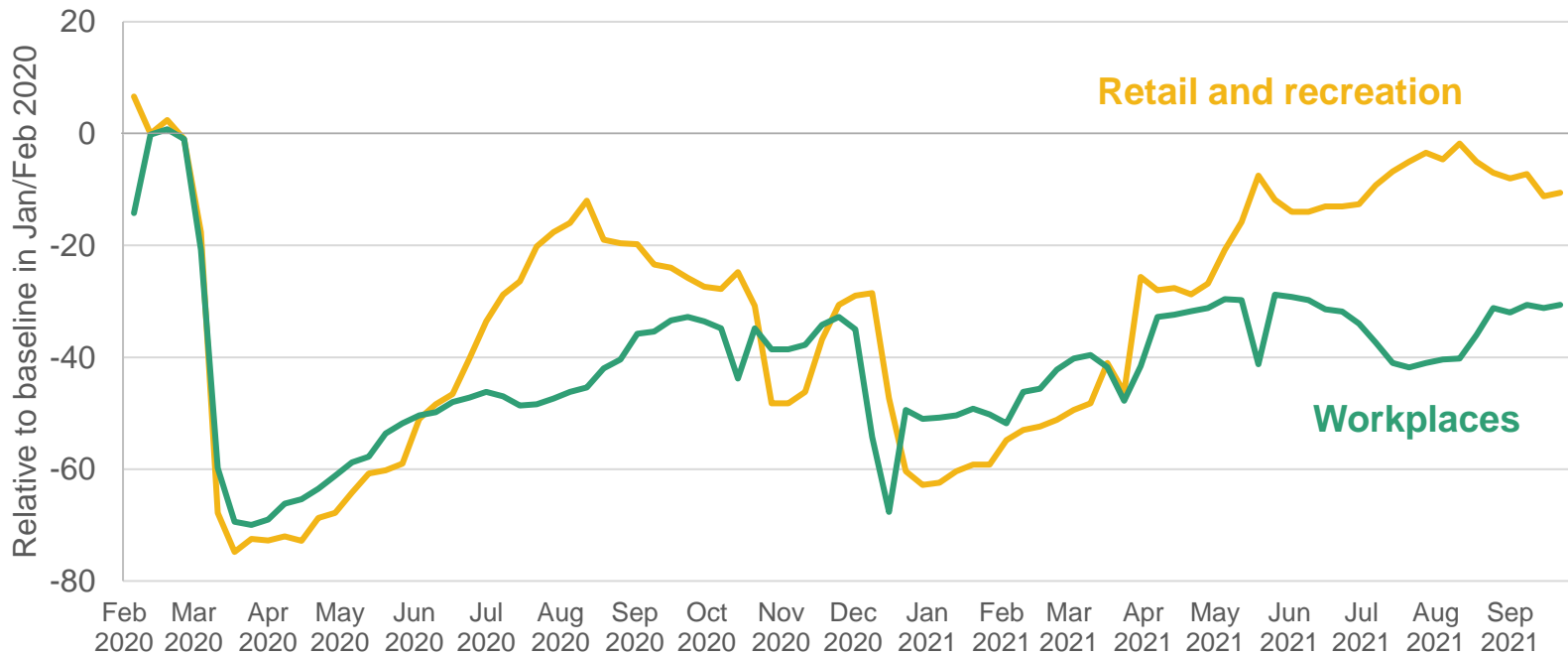
Key issues for coming SR period



- To what extent will income recover?

How much will behaviour change?

Footfall to various locations, relative to Jan/Feb 2020



- How will policy respond?
 - Right to request home working from day 1
 - In Wales, target of 30% remote working

Google mobility data, <https://www.google.com/covid19/mobility/>. UK, to mid-October. Weekly averages, excluding weekends and bank holidays.

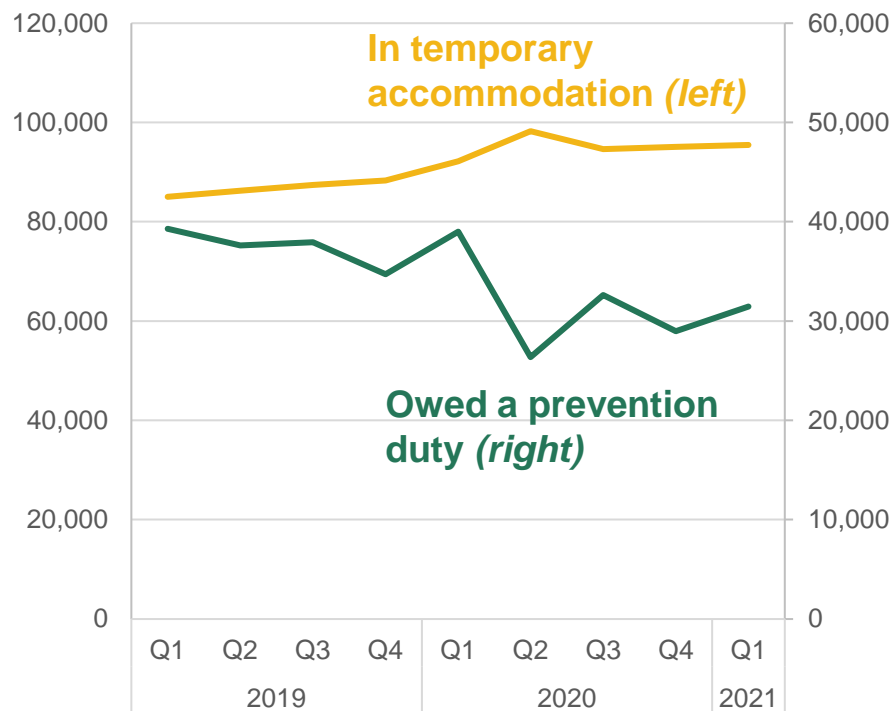
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- To what extent will income recover?
- Will new spending pressures emerge?

What will happen to housing services costs?

Number of households



- Rise in temporary accommodation (Everyone In)
- Short-term fall in demand for prevention given temporary measures
- End of temporary measures
- Evidence HHs have built up rent arrears, and other pressures (furlough, living costs, UC)

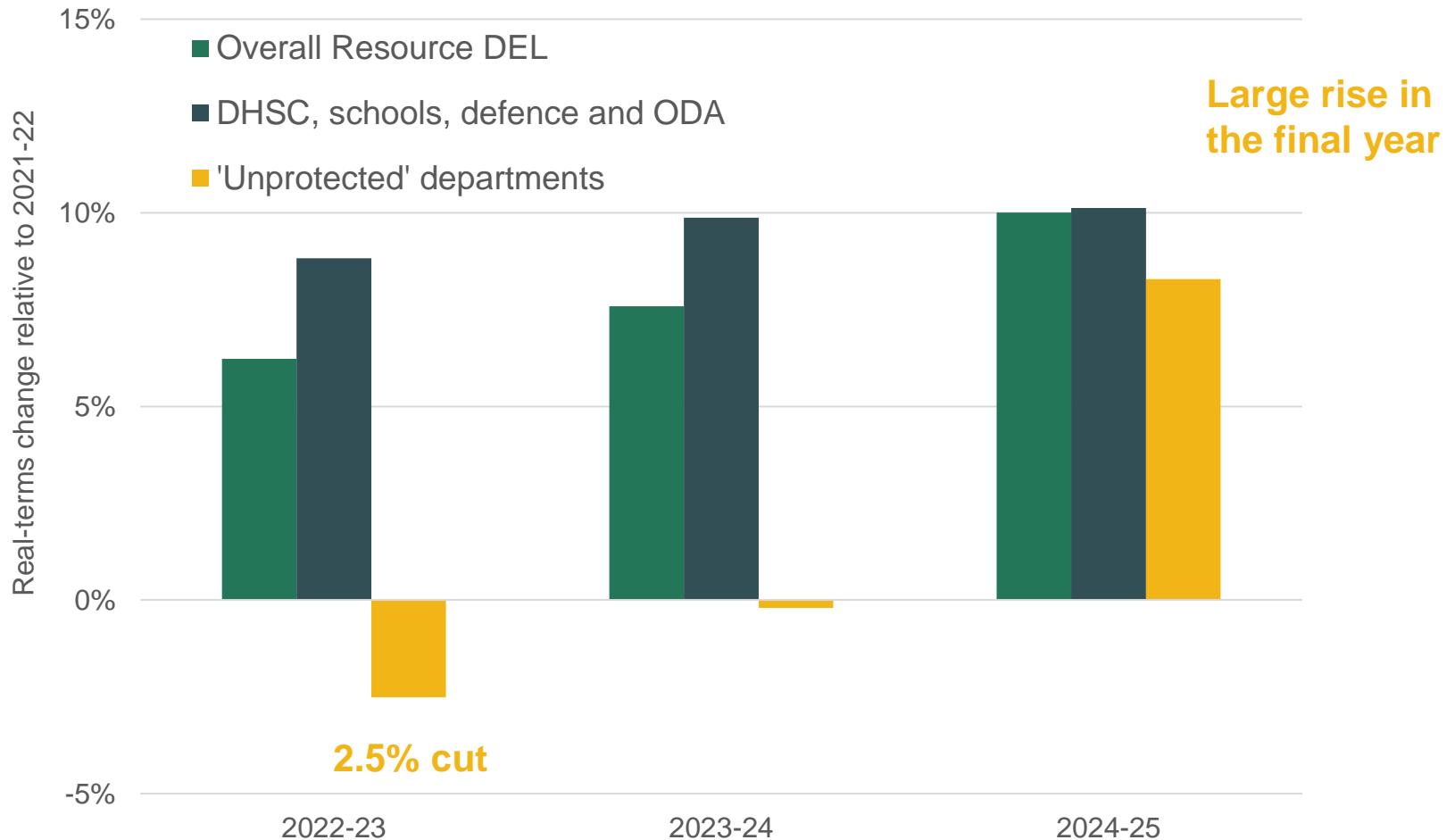
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- What can local government expect on grant funding at the Spending Review?

Outlook for grant funding

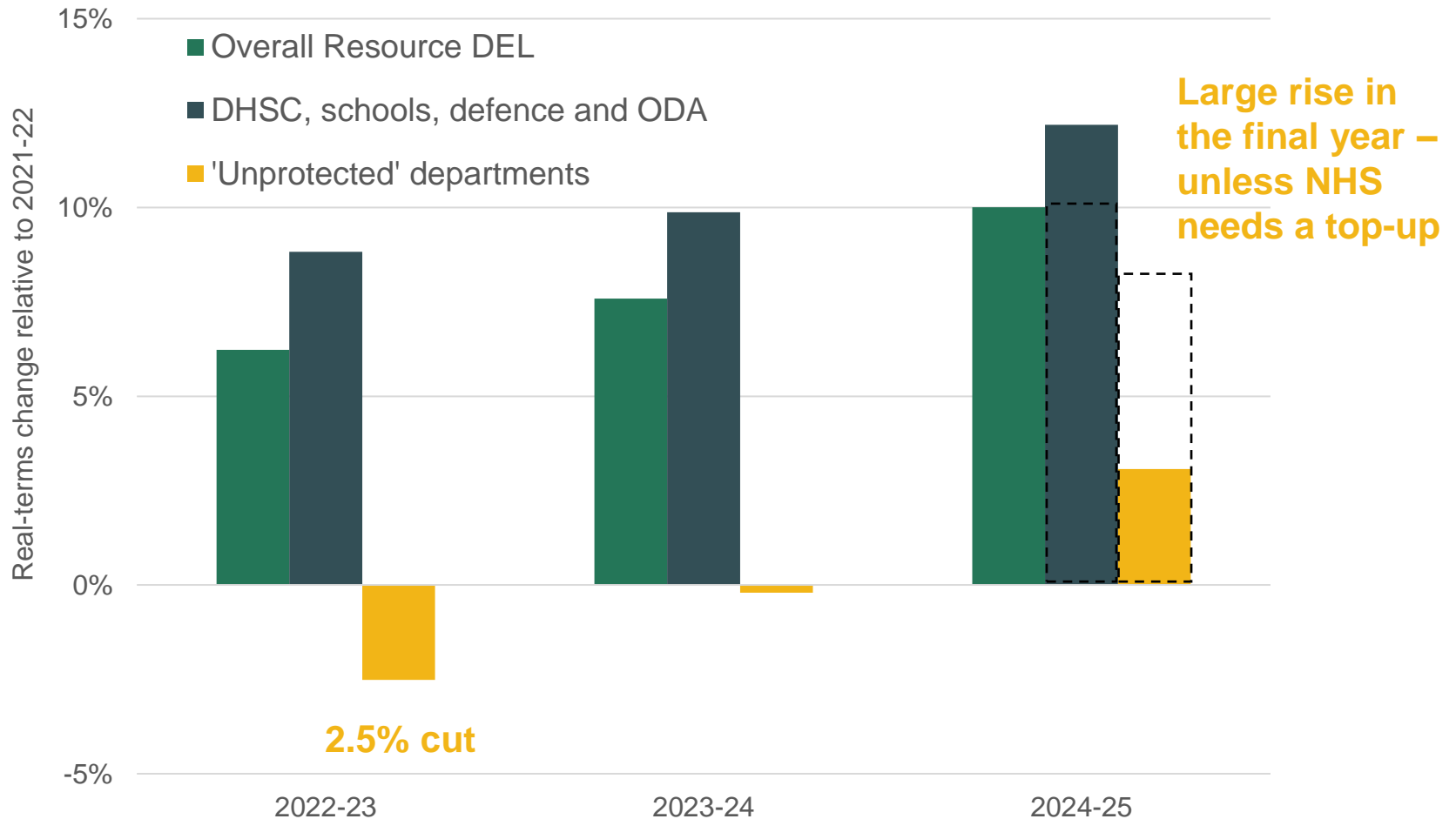
Projected real-terms change in day-to-day public service funding, by area



IFS Green Budget (2021) <https://ifs.org.uk/publications/15688>, See figure 5.16.

Outlook for grant funding

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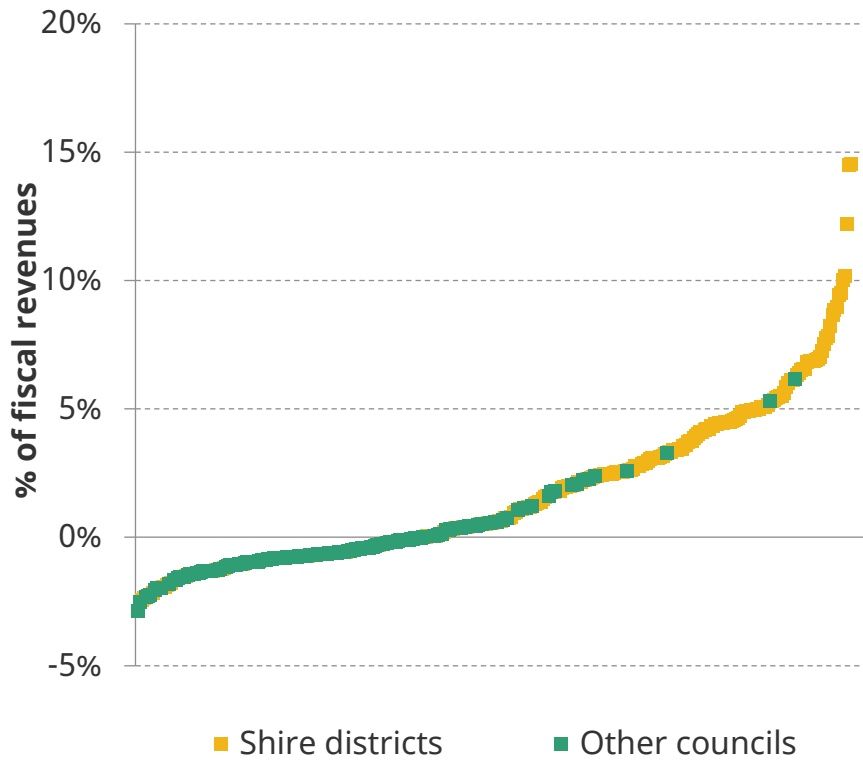


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- What can local government expect on grant funding at the Spending Review?
- What about retained business rates, and the New Homes Bonus?

Districts depend a lot on retained business rates and the NHB

Gains/losses relative to allocating funding according to assessed needs

Business rates (2013-14 to 2019-20)



- Districts have gained relative to if retained rates had been allocated in proportion to assessed need
 - 58 districts gained by >10% of revenues in 2019-20
- Similar picture on New Homes Bonus
 - NHB made up 9% of districts' core spending power in 2021-22

Not a prediction!

Key issues for coming SR period



- To what extent will income recover?
- Will new spending pressures emerge?
- Will there be funding left after health, schools, social care (and foreign aid) get their share?
- What about retained business rates and the NHB?
- Do districts need greater fiscal flexibilities?

Power to the councils?

- Ability to set new taxes (e.g. tourism tax, workplace parking levy)
 - Revenue-raising capacity highly unequal
 - Trade-off between revenue-raising & supporting recovery?
- Greater flexibility to be commercially-minded on SFCs?
 - Need to be mindful of councils' market power
- Increased powers over council tax
 - Powers over discounts and exemptions? Abolish the referendum requirement?
 - But CT raises different amounts across the country, and other pressures on residents

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