



David Phillips, IFS

Council funding: what's happened and what's next?

December 2024

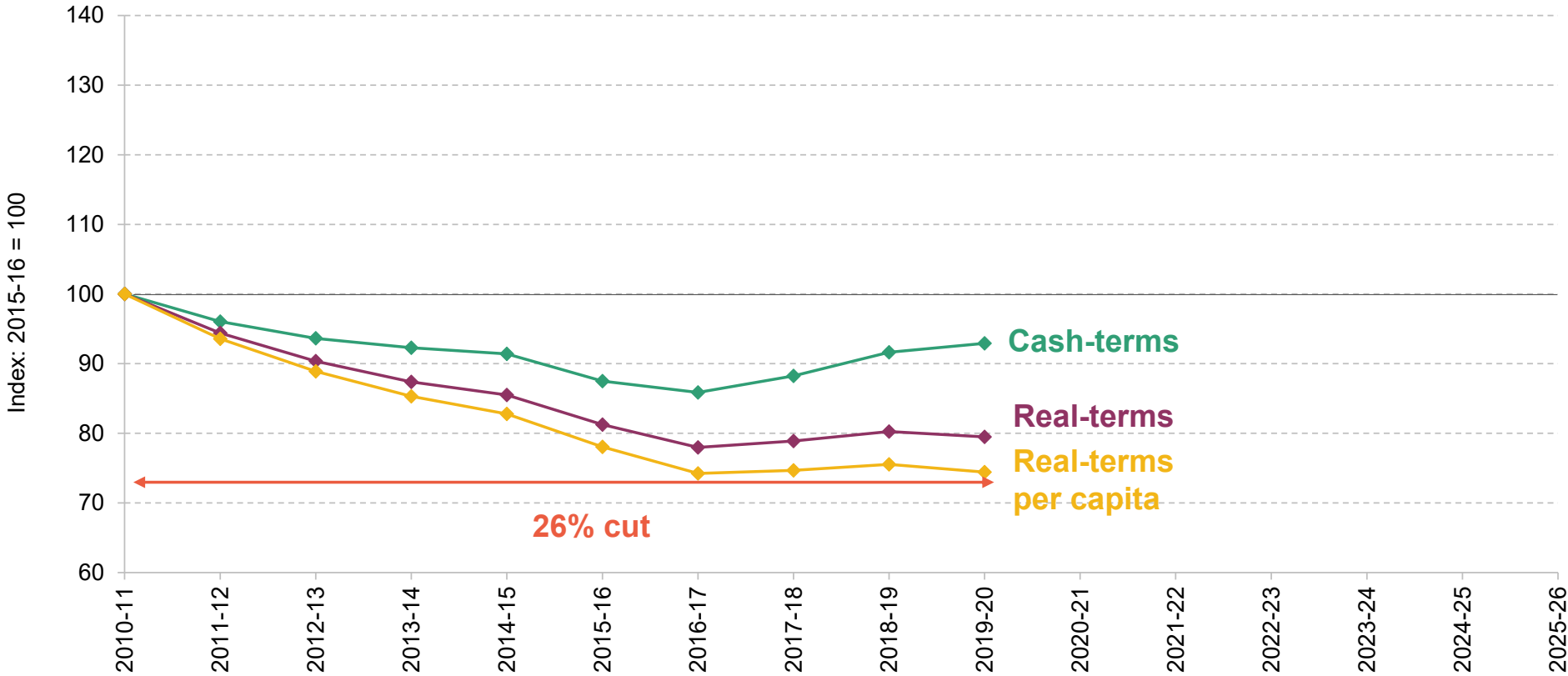
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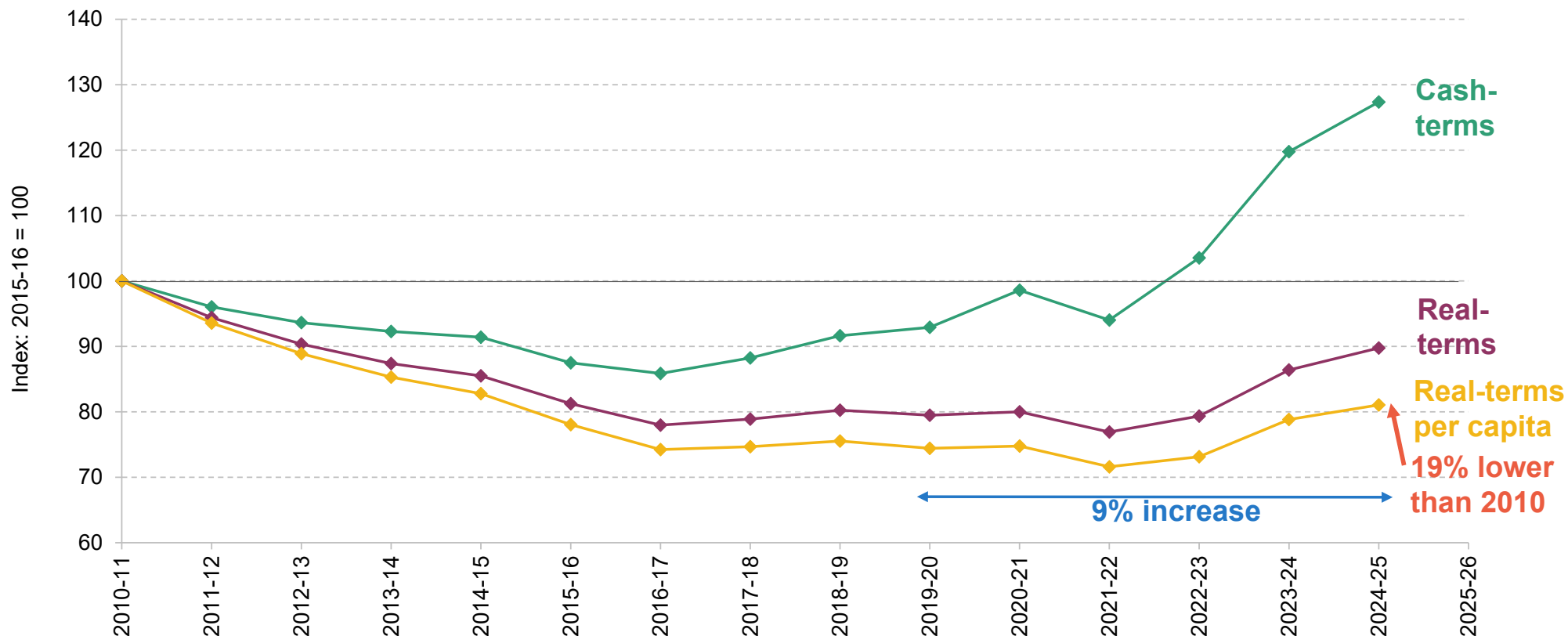
What's happened to council funding and spending?

Councils' core funding per resident fell 26% in real-terms during the 2010s



Note: Funding includes core spending power, above-baseline growth in business rates, and NHS transfers for social care services. Real-terms figure based on GDP deflator.
Source: Ogden and Phillips (2024) [How have English councils' funding and spending changed? 2010 to 2024](#), Figure 8.

Funding per resident is up 10% in real-terms since 2019-20, but this undoes just 1/3 of cuts



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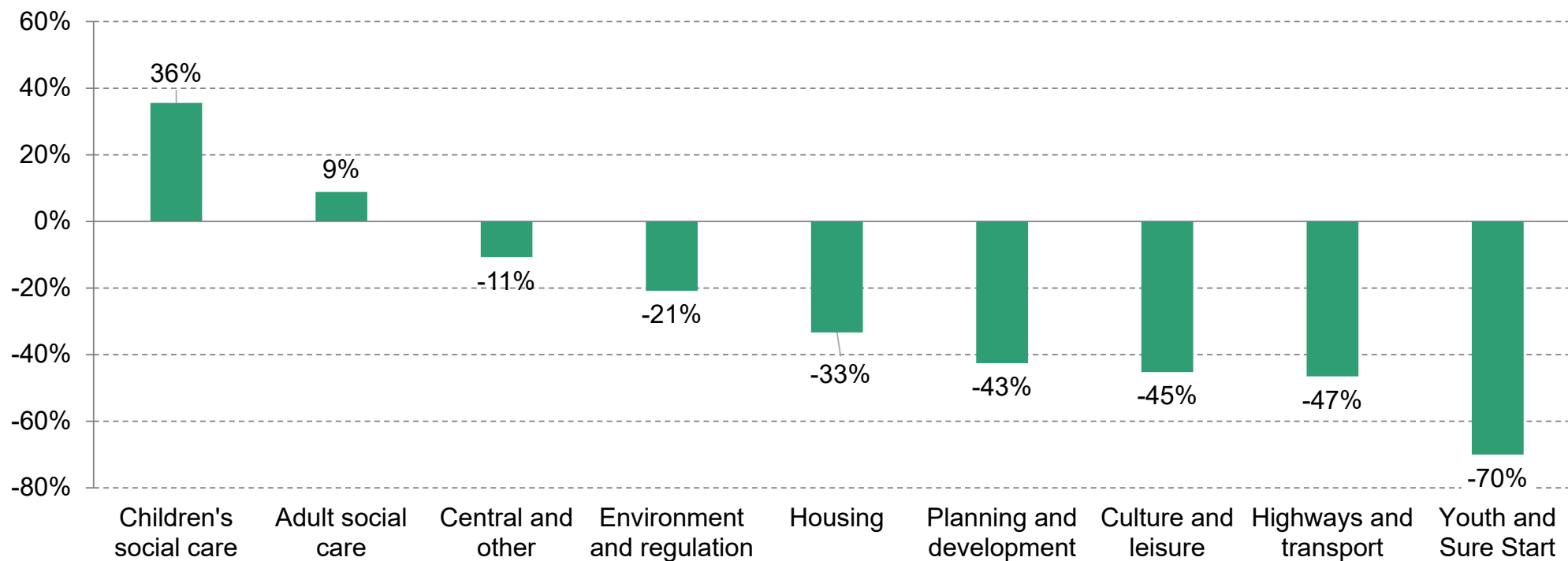
Demands and costs outpacing general inflation



- Number of homeless in B&B hotels **DOUBLED** from 2019 to 2023
- Number of children with special education needs statements **up 30%**
- Number of children in children's homes **up 30%**, with the number of placements costing **£1 million a year** or more up 10-fold since 2018
- Cost per hour of home care **up 29%** between 2019 and 2023
- Cost of care home placement **up 35%** over same period – almost **twice the rate of inflation**.

Councils' spending focused increasingly on residents with most acute needs

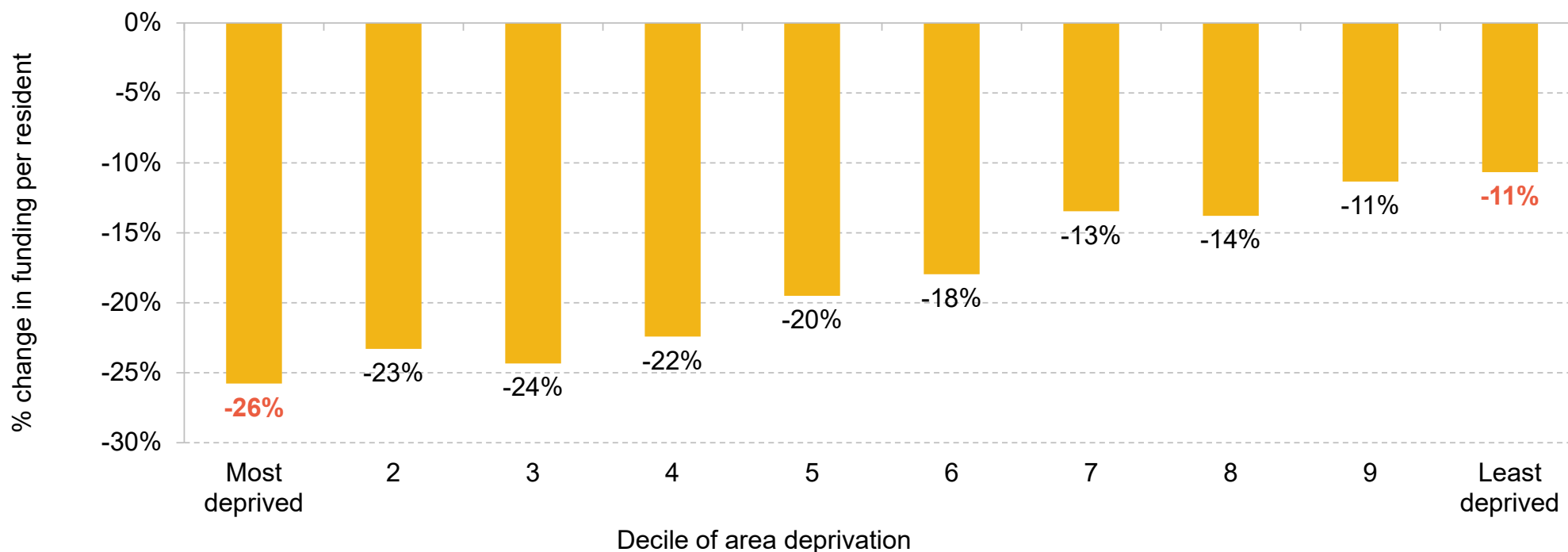
Real-terms change in spending per resident, 2010-11 (actual) to 2023-24 (estimated)



Source: Tables 1 and 3, 'How have English councils' funding and spending changed? 2010 to 2024', Kate Ogden and David Phillips, IFS Report R318

Bigger cuts followed by bigger increases in poorer parts of England

Real-terms change in core funding by deprivation decile, 2010-11 to 2024-25



Source: Tables 2 and 7, 'How have English councils' funding and spending changed? 2010 to 2024', Kate Ogden and David Phillips, IFS Report R318

Reserves now being drawn down



	Start (1 April, £ million)	End (31 March, £ million)	Change (cash, £ million)	Change (%)	End, % of core spending power
2018–19	17,491	18,764	+1,272	+7%	45%
2019–20	18,807	18,553	–253	–1%	43%
2020–21	19,877	24,815	+4,938	+25%	55%
2021–22	25,755	28,025	+2,270	+9%	60%
2022–23	27,640	25,925	–1,715	–6%	51%
2023–24	25,849	24,737	–1,113	–4%	44%
2024–25	N/A	N/A	–1,081	N/A	N/A

Note: Reserves for 31 March 2019 to 31 March 2023 have been adjusted to try to strip out the effect of temporary business rates reliefs.

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

1/10 councils had reserves at least one-third lower than April 2019 levels by March 2024

~70% of councils drew down reserves in 2022-23, and over half drew down in 2023-24

Growing number of 'capitalisation directions', allowing capital funding to be used for day-to-day spend

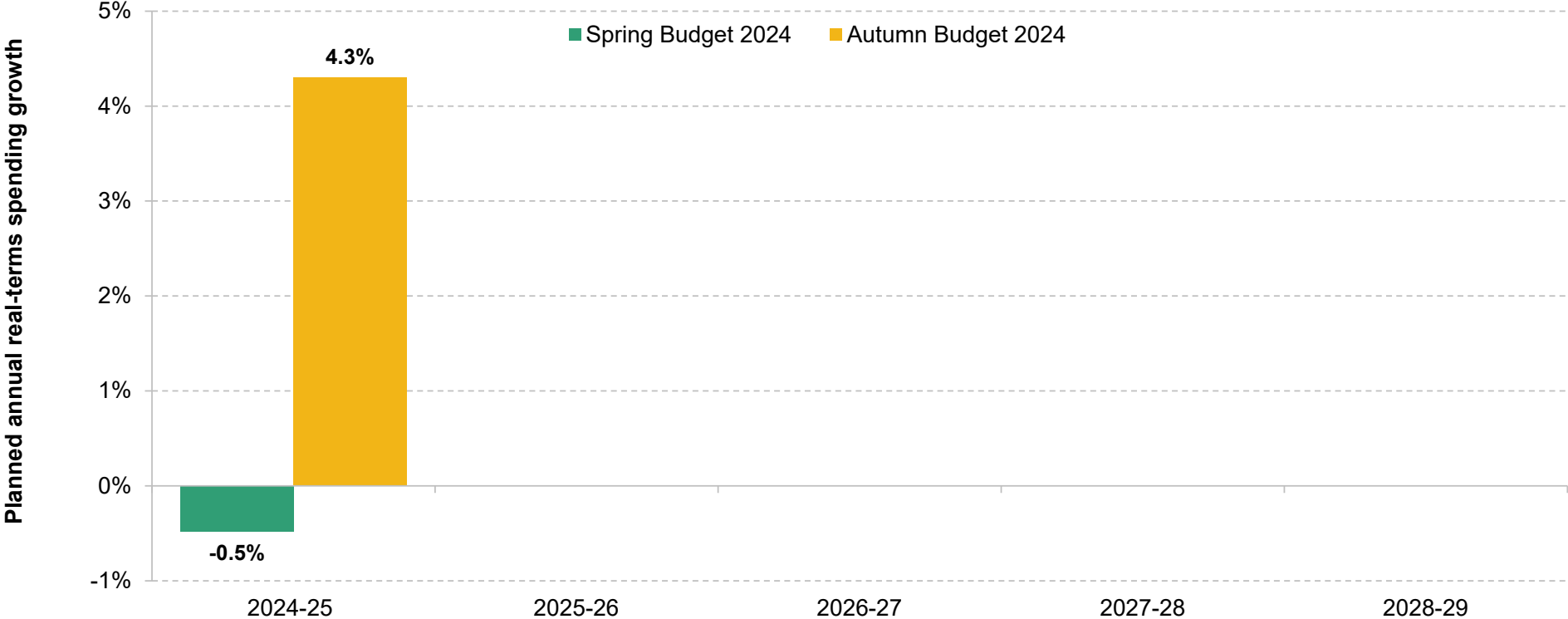


What does the future hold?

Day-to-day spending changes...



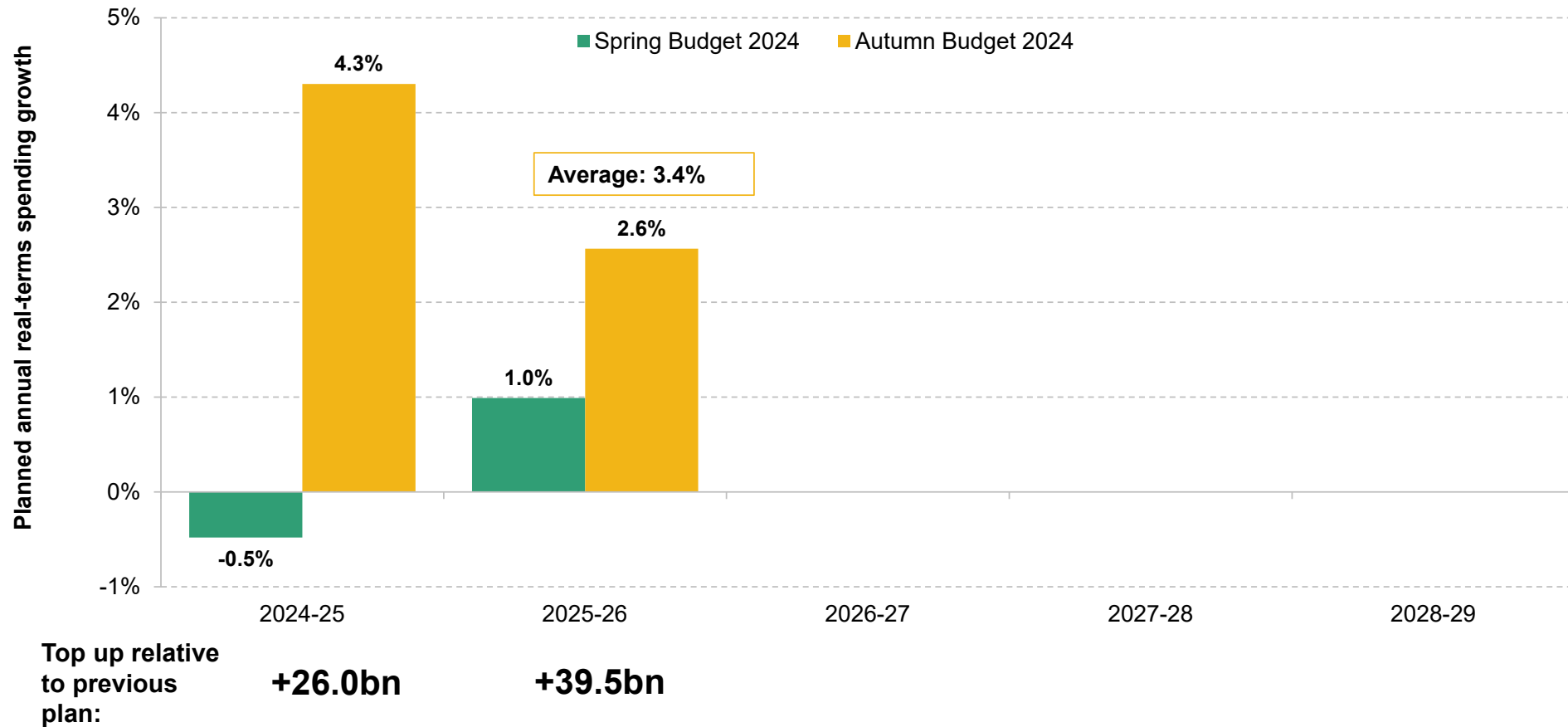
Real terms day-to-day spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024



Top up relative to previous plan: **+26.0bn**

Day-to-day spending changes...

Real terms day-to-day spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024

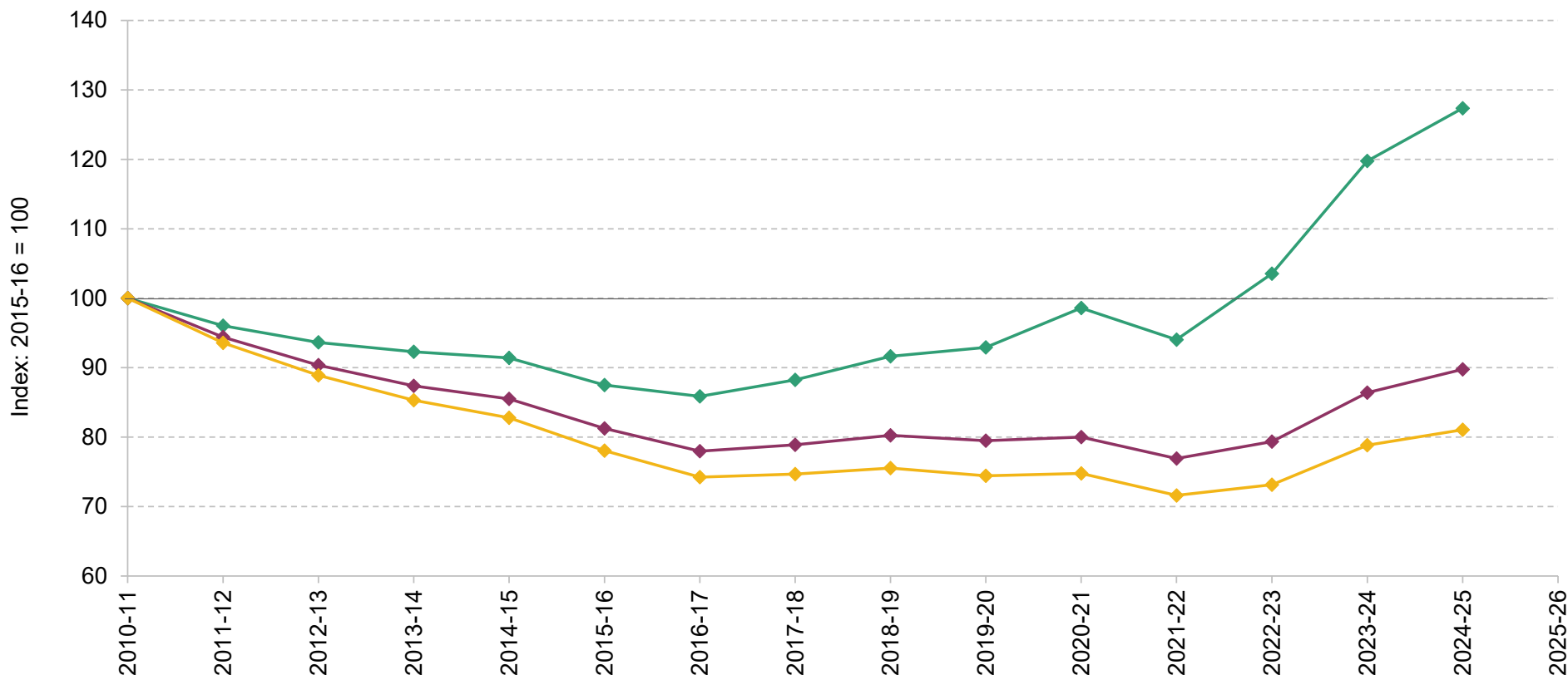


Plans for core spending power in 2025-26



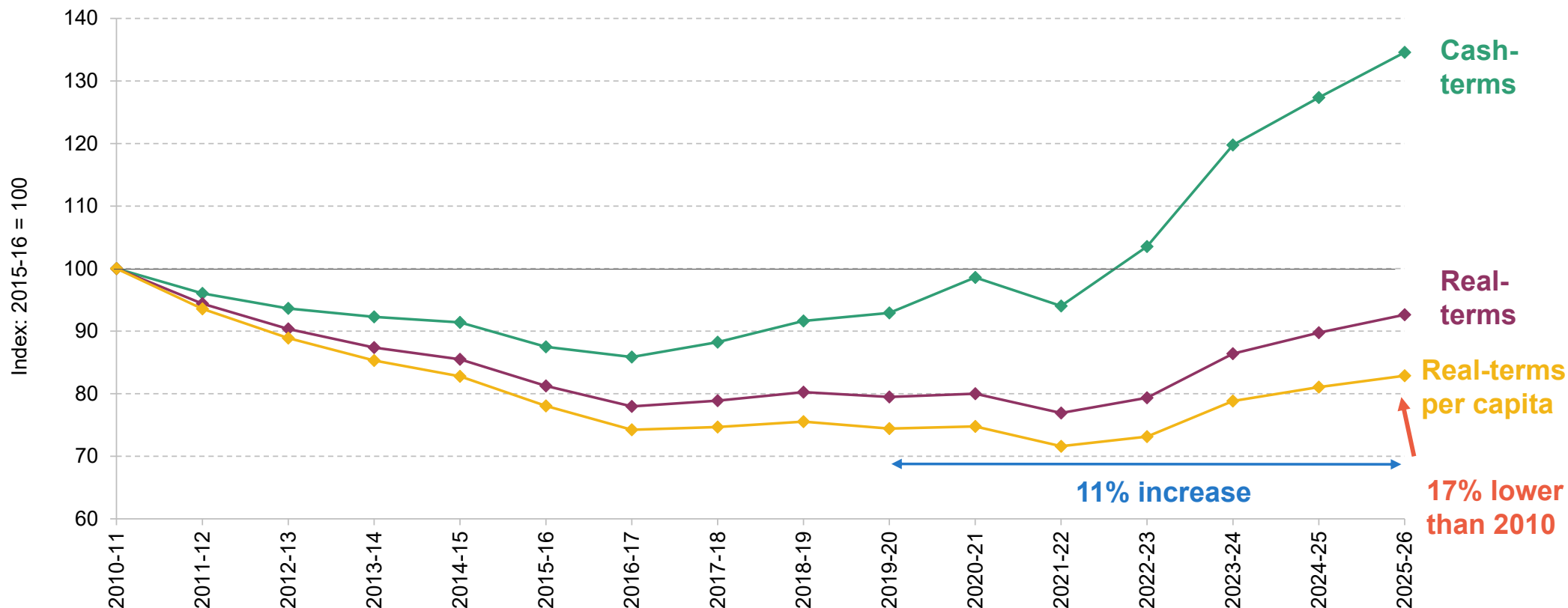
- Core spending power projected to increase approx. 5.6%, or 3.2% after forecast economy-wide inflation in 2025-26
 - Increase in grant funding of £1.3 billion
 - Increase in council tax of up to 5%, raising £2 billion

Budget plans for core funding would mean funding per resident still 17% lower than 2010



Note: Funding includes core spending power, above-baseline growth in business rates, and NHS transfers for social care services. Real-terms figure based on GDP deflator.
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 - Increase in grant funding of £1.3 billion
 - Increase in council tax of up to 5%, raising £2 billion
- Grant funding highly targeted at more deprived places, and some shire districts may see no increase in core spending power
 - ASC grant increasing by £0.7 billion targeted at those able to raise less via council tax
 - New children's social care grant of £0.3 billion allocated using new needs formula
 - "Recovery grant" of £0.6 billion allocated on the basis of deprivation and ability to raise revenue via council tax – not all councils will receive this
 - Abolition of services grant & rural services grant
 - Cash-flat funding floor *including* council tax increases

Who will the relative winners & losers be?



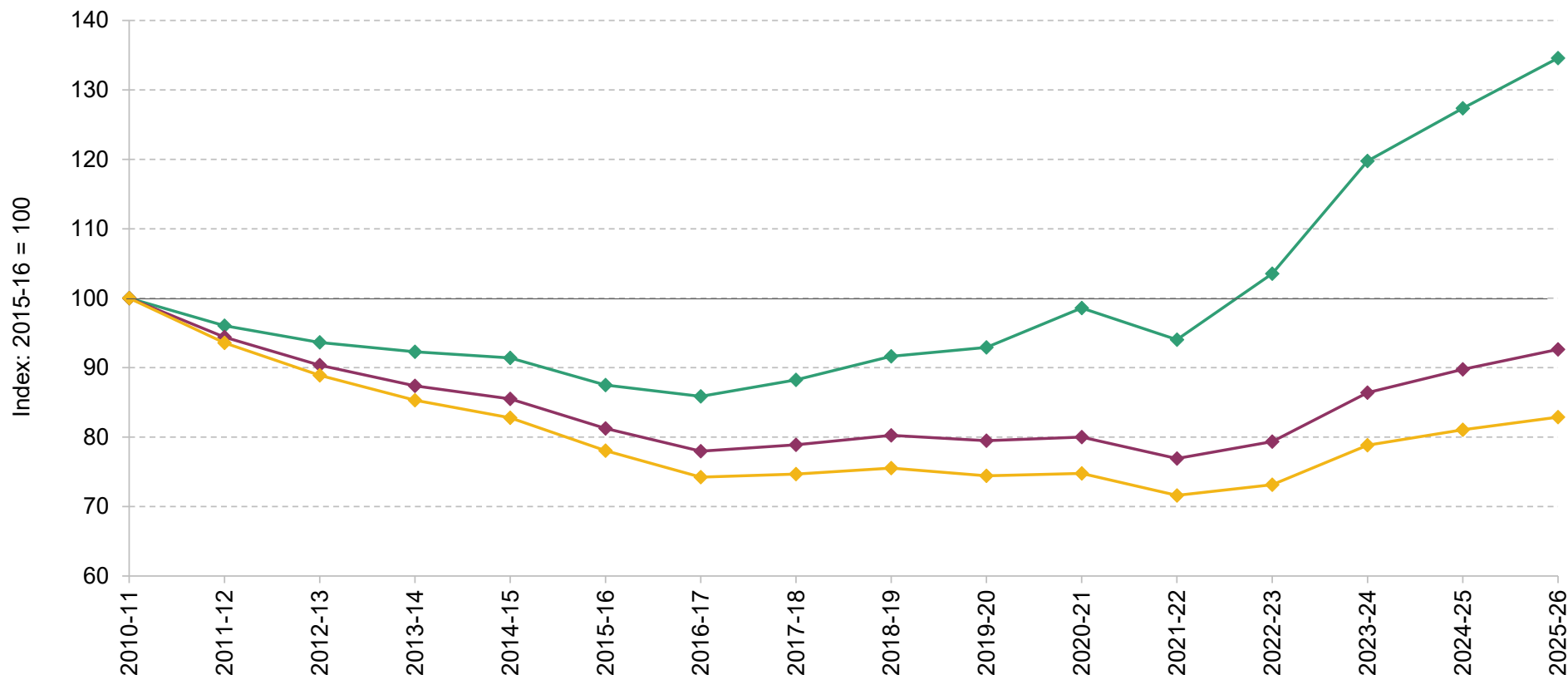
- More deprived, typically urban areas, are likely to see a bigger boost to funding
 - Increase of 5% for rural areas highlighted by government is around 2.5% in real-terms and so below the average 3.2%
- Continues pattern of the last 5 years, when a combination of high inflation and big increases in grants also led to bigger increases in funding for poorer areas
 - But more deprived & urban areas faced MUCH bigger cuts in the 2010s
 - So even after next year's changes, deprived & urban areas funding will be further below 2010 levels than more affluent & rural areas
- Shire Districts are also relative losers and most affected by cash-flat funding floor

Plans for other council funding in 2025-26



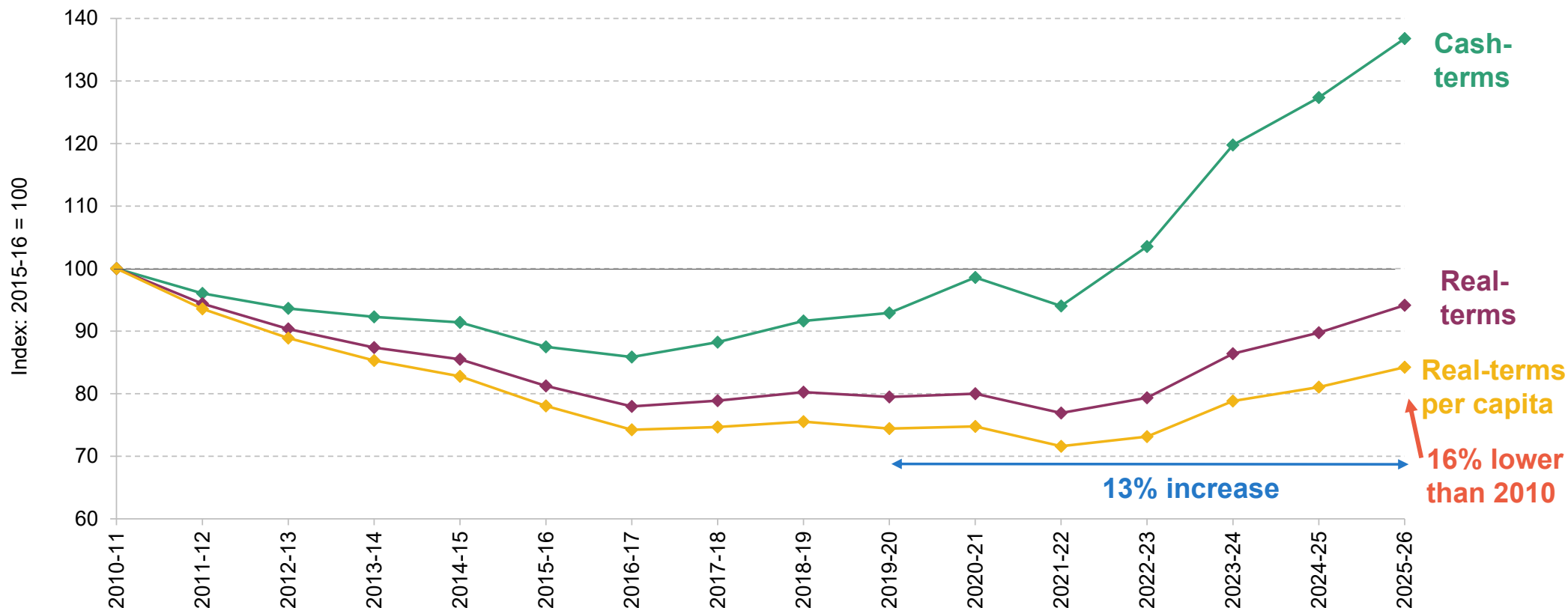
- Expected £1.1 billion of funding for extended producer responsibilities guaranteed

Accounting for 'EPR' would mean funding per resident 16% lower than 2010



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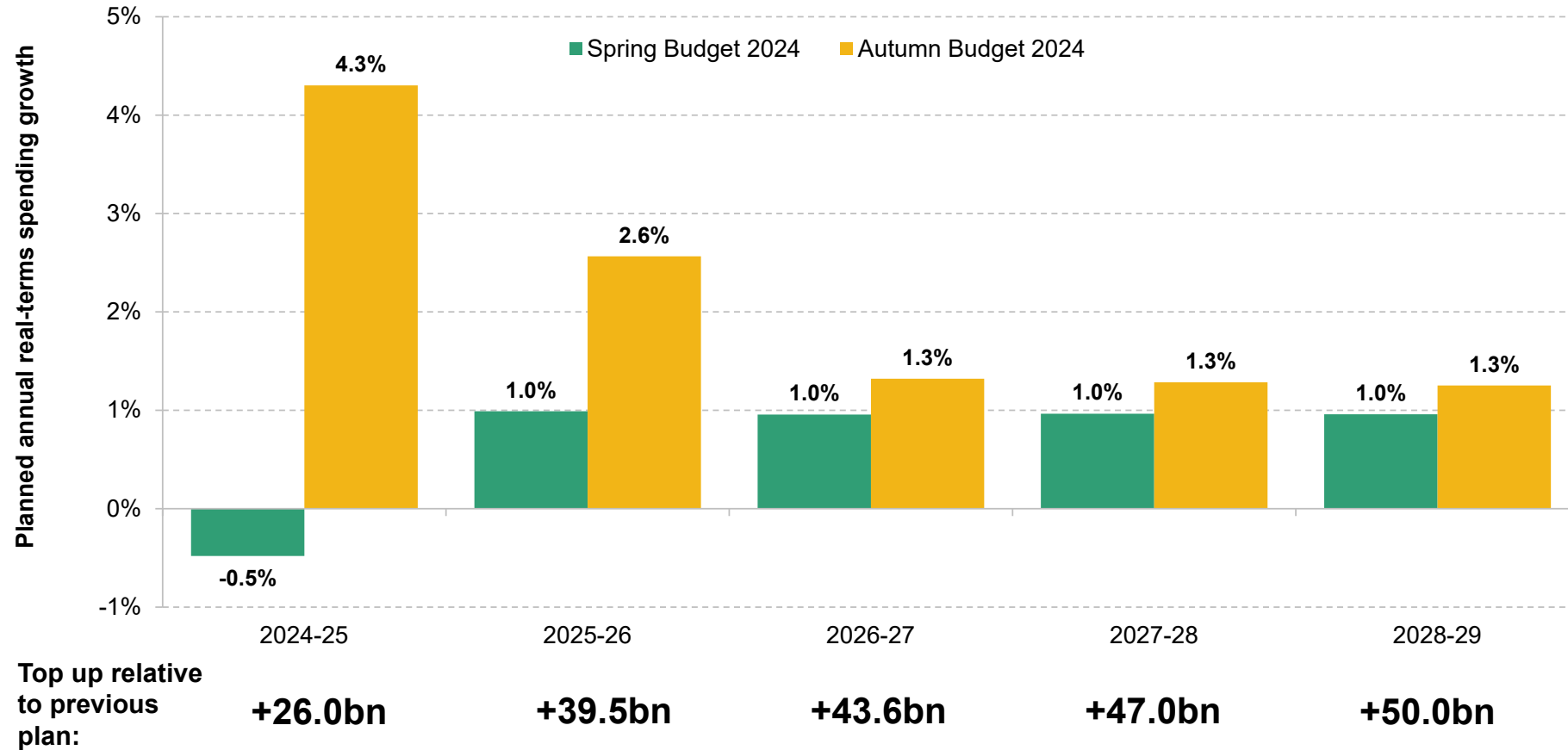
Plans for other council funding in 2025-26



- Expected £1.1 billion of funding for extended producer responsibilities guaranteed
- Compensation for employer NICs increases, excluding outsourced services
- Other funding announcements
 - £233 million increase in homelessness prevention funding
 - £1 billion for SEND and £40 million to pilot 'Kinship allowances'
 - £0.8 billion extension of Household Support Fund
 - UKSPF cut to £0.9 billion (from £1.5 billion), with potential abolition in 2026-27
 - Cornwall (and Wales) likely biggest losers
- RTB discounts reduced and 100% retention by councils

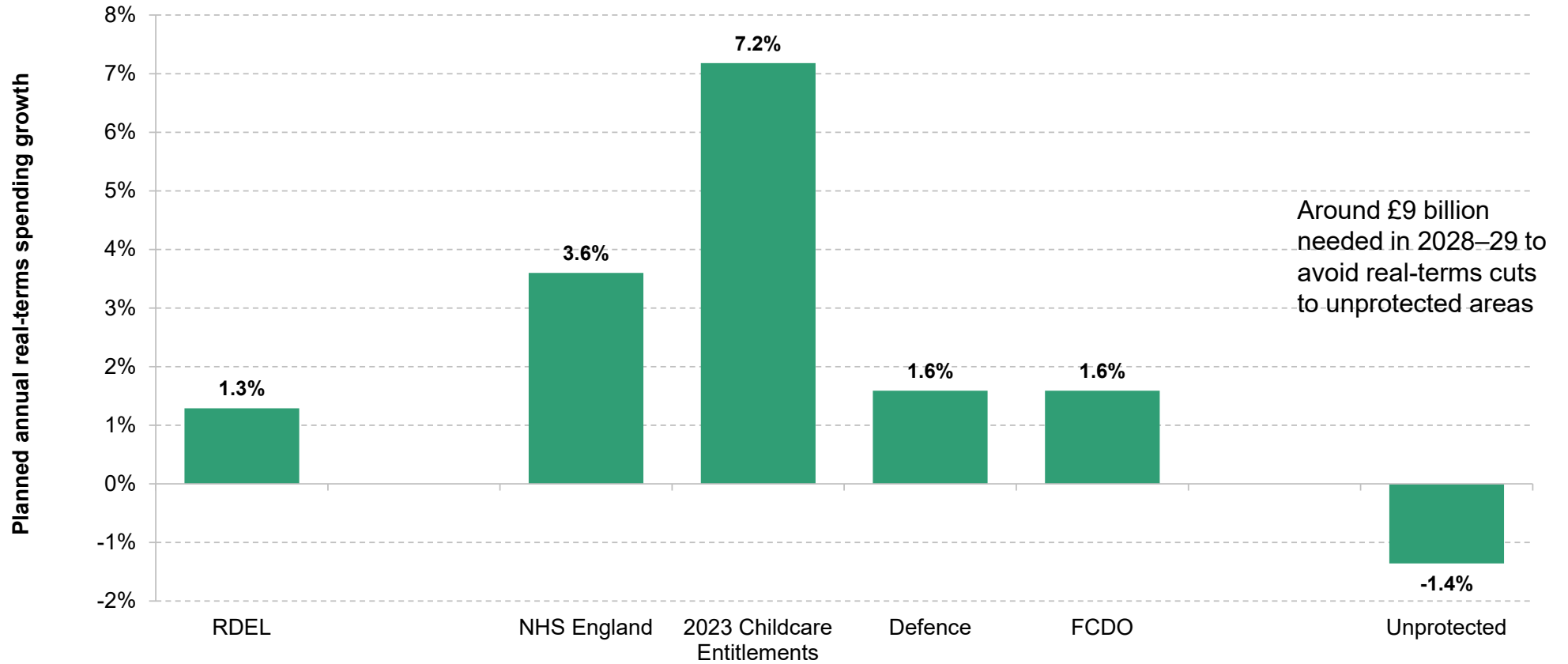
Day-to-day spending changes...

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Tight plans after 2025–26

Real terms day-to-day spending growth, 2025–26 to 2028–29



What to expect in later years: funding



- Unless overall spending plans are topped up further, it would be difficult to further increase councils' grant funding in real-terms
 - In that case, there would be increased reliance on council tax for increases in funding
 - 5% council tax increases plus real-terms freeze in grants → 2% real-terms CSP increase
 - Recent years have seen spending pressures of more like 4% a year
- Different councils are again likely to fare very differently given wider **finance system reform**
 - Confirmed that business rates retention system will be reset, beginning in 2026-27
 - New assessments of spending needs and revenue-raising capacity
 - Transition to new system over several years, with multi-year settlements
 - Much to still decide: consultation on principles of reform alongside 2025-26 settlement; more detailed consultations on options & proposals next year

What to expect in later years: social care reform



- Labour promises a 'National Care Service' but unclear what this means
 - Enhanced bargaining rights and training for workers
 - Ruled out 'cap and floor' system for now
 - 'Genuine impasse' between Treasury and DoH on way forward
 - Another independent review or Royal Commission?
 - Improved national standards, or a national service? See Scotland
- Children's social care plans aim to tackle excess profits and re-focus on prevention
 - Placement providers to share financial info, and 'backstop legislation' to cap profits
 - Additional responsibilities on coordination, safeguarding, family engagement – aimed at earlier intervention, reduced numbers needing care and better post-care transition



What more can be done?

SNEAK PREVIEW: IFS report on funding reform

- Plans for reform of the finance system are welcome and long overdue
 - Existing funding allocations based on ad-hoc decisions & data from as far back as 1990s
 - When funding is constrained even more important it is distributed equitably & efficiently
- The government should be clear about its expectations and objectives
 - Range and quality of services expected, and how much it reasonably costs to deliver these
 - How is it trading-off objectives (e.g. redistribution versus financial incentives) and why?
- Potential for a new independent institution to assess spending needs
 - Improve accountability and transparency
 - But ultimate decision-making should remain with the government

Call to action, not despair



- Multi-year Spending Review next Spring could see spending plans further topped-up
 - But funding taps are unlikely to gush
- Central government can...
 - A multi-year funding regime that provides genuine clarity
 - Ensure (much delayed) funding reform actually happens
 - Consider the roles that fiscal devolution and greater funding flexibility can play
 - Assess cost of existing burdens and ensure new burdens are funded appropriately
- Councils can...
 - Be smart-sourcers – in-sourcing and out-sourcing where appropriate
 - Double down on collaboration
 - Invest in analytics, and help forge productive relationship with new Office for Local Government

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