Hollowed out

The impact of financial localisation on neighbourhood services

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The Association for Public Service Excellence (APSE) is a not-for-profit local government body working with over 300 councils throughout the UK promoting excellence in public services. APSE is the foremost specialist in local authority frontline service providers in areas such as waste and refuse collection, parks and environmental services, leisure, school meals, cleaning, housing and building maintenance.

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New Policy Institute (NPI) is a UK research institute which produces evidence-based research on a range of social and economic issues.

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Executive summary

Neighbourhood services

This report considers the prospects for the 'neighbourhood services' provided by local government. Neighbourhood services are mainly those provided by local government *apart from* social care and education, that is: highways and transportation; environmental and regulatory service; cultural and related services; and planning and development. Spending on neighbourhood services by English local government in 2016/17 totalled £17 billion, representing 26% of total local government spending[1].

Our last report for APSE showed that neighbourhood services had been the hardest hit of all local government services since 2010 with the most deprived areas, on average, hit the hardest.[2] Over the five years to 2015/16, spending was down one per cent for environment and regulation, 13% for highways and transport, 24%for cultural and related services and 27%for planning and development. All of these figures take no account of inflation. The 'real' cut, taking account of inflation, is bigger in every case. The negligible (before inflation) fall in environment and regulation is mainly down to a big increase in spending on waste-disposal and recycling.

Key findings

Our five key findings highlight:

- The variation in neighbourhood service outcomes across authorities
- The growing importance of council tax within core spending power
- The 'reverse subsidy' of central government by local government.
- The differential impact of localisation on deprived authorities
- The hollowing out of councils' capacity to deliver neighbourhood services, with impacts now being felt on the front-line.

Variation in neighbourhood service spending across local authorities

On average, spending on neighbourhood services in England fell by 17% in cash terms between 2010/11 and 2016/17. The variation around that average was huge. Most authorities ranged between a reduction of 36% and an increase of five per cent. The most extreme examples went far further with spending down by two thirds in the worst case and up by one third in the best. This degree of divergence does make it difficult for local government to come together make common cause for neighbourhood services.

The growing importance of council tax

Core spending power (CSP) is the sum of a local authority's council tax, revenue support grant, other grants from central government and retained business rate income. Since 2010, council tax has represented an ever-growing share of CSP, up from 44% in 2010, to 54% by 2016/17 and 62% by 2019/20. It varies greatly according to the type of local authority, from 51% for London boroughs and metropolitan districts to 75% for shire counties.

With grants from central government continuing to fall, 88% of CSP will come from two taxes – council tax and business rates – by 2019/20. The share will range from 84% for London and metropolitan districts to 93% for counties.

The 'reverse subsidy' of central government by local government

In 2010/11, English local government got £12 billion more from central government than the total amount it collected through council tax and business rates. By 2015/16, core spending power had fallen to the point where it more or less equalled the total amount raised locally, thereby eliminating this central government subsidy to local government. By 2019/20, locally raised taxes will exceed CSP by £7bn – in effect, a 'reverse' subsidy, *of* central government *by* local government.

1 Throughout this report, 'spending' is gross spending, that is, before sales, fees, charges and other income have been deducted

2 NPI (2017) *Refining neighbourhoods: a future beyond austerity?*

The differential impact of localisation on deprived authorities

For a few local authorities with good prospects for business rate and council tax growth, localisation has attractions: some deprived London boroughs and metropolitan districts who have seen bigger falls in CSP in the past may be able to claw back some of the ground lost. By contrast, localisation just worsens already deeply adverse trends for some deprived unitary districts as well as some unfavourably located shire districts.

Localisation exposes local authorities to risks which can be large within a system still dogged by uncertainty arising from the way central government still controls the big decisions.

The hollowing out of local government's capacity, with financial cutbacks have now reached the frontline

Local government in England, Wales and Scotland has used a range of tactics to cope with long-lasting financial austerity, from reduced staffing, more multi-tasking and volunteering to back and middle office automation, repairs rather than renewal, and community transfers. These tactics come at a cost. Specialist knowledge and know-how, the ground from which practical judgement springs, have been lost. Short-term responses (say volunteers to collect litter) can become overwhelmed (if littering leads to fly-tipping). New homes add to council tax but also to the need for services for young and old. Stretched to the limit, flexibility, responsiveness and the capacity to plan ahead are lost. Even if councils have managed to protect front-line services so far, they are now increasingly having to choose between them.

Conclusions and recommendations

Localisation puts a premium on attracting businesses to the area and persuading people to live in the area. Neighbourhood services, which protect the public realm and contribute to the quality of life, are therefore more important than ever. Five things are needed to protect and promote neighbourhood services.

- Mount a public defence of neighbourhood services. Neighbourhood services are popular with the public, elected members and mayors alike. As APSE insists, neighbourhood services are universal services. But awareness of them in all their specifics is still limited: it is not just about bins.
- Recognise that neighbourhood services depend on a better funding of local government. Given the extent of statutory duties and the political sensitivity to child and adult social care, neighbourhood services will never be the top priority. Their defence depends on a better overall financial settlement.
- Highlight and urge and end to the reverse subsidy. The idea that local government now funds central government is a both a striking image – and a valuable defence and explanation for disgruntled local taxpayers.
- Pin fiscal neutrality (the condition under which central government insists localisation should take place) to the date (2015/16) when it was first proposed and when locally raised taxes were first equal to the amount controlled and spent by local government.
- Restore 'need' to pride of place in the debate about local government funding. The language of 'need' is a bottom up approach to the resources required by local government. Contentious though it is, it stands on solid ground. By contrast, the language of incentives around localisation is a top-down approach which fails in the real-world context of some heavily deprived authorities. In its place, local government should push for a system of funding whose first test is precisely that it works for the least well-placed authorities.

1. Introduction

1.1 Purpose: the future of neighbourhood services

The purpose of this report is to offer insight into the prospects over the next few years for the neighbourhood services provided by local government.[3] For the most part, *neighbourhood services* are those local government services which are *not* part of either education or social care. They cover highways and transport, environment, culture, and regulation and planning. Spending on neighbourhood services by English local government in 2016/17 totalled £17 billion, representing 26% of total local government spending in England that year.

This report follows a 2017 report which looked at what has happened to some 70 individual neighbourhood services since 2010.[4] That report's principal findings were that neighbourhood services had been the hardest hit of all local government services, that local authorities in the most deprived parts of the country had seen the biggest falls and that the worst hit services had seen falls of more than 50% over that period.

Although this report looks forward rather than back, what has happened to neighbourhood services since 2010 has been so profound that this recent past remains central to our analysis. In summary, this report examines three questions:

- First, when we look at overall funding for local government, how do the next few years compare with this recent past? Once other pressures on spending (especially social care) are taken into account, is it yet more of the same, or might the prospects for neighbourhood services be brightening?
- Second, does the shift towards a greater reliance in England on local funding sources represent a new and more positive framework for English local government? In particular, might the shift towards local funding hold out the best prospects for those authorities in deprived areas who (as we recorded last year), have made the biggest cuts in neighbourhood services?
- Third, what is the legacy of this recent past, not just in terms of things like potholes which need fixing but also in terms of local government's capacity to deliver neighbourhood services in the near future? If the fall in neighbourhood service spending has not (so it is said) been accompanied by rising dissatisfaction among the public, is there really much to worry about?

1.2 Approach to the research and presentation of results

The research is a mixture of quantitative analysis, mainly using data on local government finance and spending, and qualitative analysis based on interviews with senior officers in six local authorities. The six include two unitary authorities, one metropolitan district, one shire district, one Welsh and one Scottish authority. While there is no suggestion that the six are fully representative – as we explain below, this was not an aim – we hope the presentation of what we heard offers general insight to those outside local government and recognisable points of reference to those inside. The six authorities are not identified in the report.

Individual authorities are also never identified in the quantitative analysis which is for England only. Instead, it presents separate results for the five different types of English local authority, namely: unitary districts, metropolitan districts/boroughs, London boroughs, shire counties and shire districts. As a rule, unitary, metropolitan and London authorities provide all the neighbourhood services in their area (although waste disposal and/or public transport are sometimes delivered by a separate body serving several areas). In contrast to these three types of single-tier authority, shire counties and districts share responsibility for neighbourhood services. The upper-tier counties are mainly responsible mainly for highways and transport and waste disposal. The lower-tier districts are mainly responsible for leisure and recreation, environmental health, waste collection, planning applications and local tax collection. In terms of spending, the upper tier took 52% in 2016/17 and the lower tier 48%.

3 In parallel, NPI has written a report (for the NI Local Government Association) with support from APSE which examines the case for greater devolution ***within*** Northern Ireland ***to*** local government.

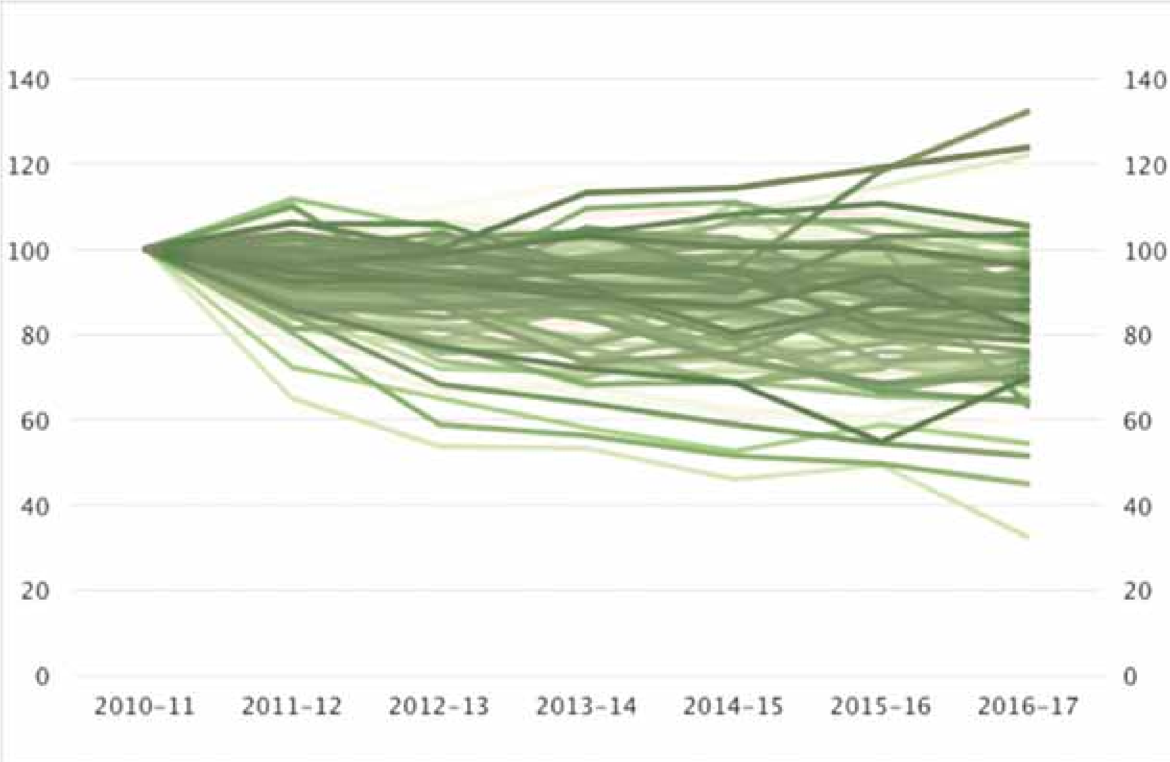
4 NPI (2017) ***Redefining neighbourhoods: A future beyond austerity?***

At some points, we also present the results for each authority type using a further five-fold division based on which fifth (quintile) each local authority area occupies in the index of multiple deprivation. .

1.3 The divergence of local authority experience

A crucial point to bear in mind throughout this discussion of neighbourhood services is the wide divergence between individual local authorities over the last few years. The breadth of this divergence is presented in figure 1, which shows neighbourhood spending for each of the 152 English upper tier areas (i.e. unitary and metropolitan districts, London boroughs and shire counties which here includes spending by their districts too). Spending in each area is indexed to 100 in 2010/11. The chart shows how that spending changed over the next five years.

Figure 1. Spending on neighbourhood services by English upper tier authority area (2010/11=100)



Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities and Local Government.

The mid-point value for 2016/17 – around 83% – can obviously be identified, meaning that spending on neighbourhood services fell on average by 17% in cash terms (these figures take no account of inflation) over the six years. Yet what catches the eye with the chart is not the mid-point but how widely spread the individual local authority areas are. This is true even of the great majority of local authorities whose spending in 2016/17 ranged between 64% of the 2010/11 value and 105% of it%, that is, up to 20 or so percentage points either side of the average. Beyond this widely-spread pack, a further nine outliers (five at the bottom, four at the top) extend from 32% at the very bottom (spending *down by two thirds* since 2010/11) to 132% at the very top (spending *up by one third*). This striking degree of divergence cannot but make it difficult for local government to come together to make common cause for neighbourhood services. This report, which we think of as an attempt to find the patterns within the chaos, is intended to help local government do this.

2. Funding local government to 2019/20

2.1 Sources and components of funding

This chapter looks at the funding received by English local government to finance current expenditure (that is, excluding spending which counts as investment in capital). The focus is mainly on local government as a whole.

Inevitably, this subject cannot be discussed without using some technical terms. They are: Council tax (CT) and business rates (BR); Business rates retention (BRR); Baseline funding level (BFL); Revenue support grant (RSG); Settlement funding assessment (SFA) and formula grant (FG); Core spending power (CSP)

Council tax and *business* (or non-domestic) *rates* are the two main taxes collected by English LAs. Council tax is paid by households who are resident in the LAs area. Business rates are paid by businesses who are occupying non-domestic premises in the LAs area. In 2017/18, councils were expected to collect £23bn in council tax and £24bn in business rates.

While each LA keeps the council tax it collects, under the *business rates retention* scheme, English local government (as a whole) keeps 50% of the business rate income.[5] The amounts kept by each LA varies from this according to a formula with those who keep more receiving a *top-up* and those who keep less paying a *tariff*. When the scheme was introduced, the amount each LA received was its *baseline funding level*. This, the BFL, is then uprated each year in line with inflation.

The other 50% of the business rate income goes to central government which uses it as a source of funding for various other grants paid back to local government. Alongside various grants for specific purposes, is an all-purpose *revenue support grant* which can be used to help fund any local government service. Each LAs *settlement funding assessment* is then the sum of its RSG and its (uprated) BFL.

Each LA's *core spending power* is the sum of its council tax and its settlement funding assessment plus any specific grants it receives from central government. Totalling about £41bn in 2016/17, this is just 37% of the entire £112bn total current spending attributed to 'local government' in England. The difference is almost entirely accounted for by three broad areas of spending – education, housing benefit and the police – over which LAs now have no control.[6]

2.2 Core spending power and the pressures on it

CSP is the key quantity for measuring what is happening to English LAs' revenue spending on the services for which they are responsible. Figure 2 shows total CSP for each year from 2014/15 to 2019/20, broken down into its three components, namely council tax, the SFA and specific grants.[7] From a value of £45bn in 2014/15, CSP falls to a low of £41bn in 20l6/17 after which it rises to £43bn in 2019/20. Figure 2 also shows a near equivalent to SFA in 2010/11, namely *formula grant*.[8] Although the comparison is imperfect, there is a clear difference between the two halves of the decade, the steep fall in CSP in the first half being followed by broad stability in the second. After allowing for cost inflation (not included in the chart) there is still some squeeze in real terms even in the second half.

But these numbers are only a starting point. Our LA interviewees pointed to several continuing sources of financial pressure lurking behind the numbers. The 2018 pay award to local government employees for which no additional funding has been made available is one. Statutory requirements imposed by central government but without the fund to match are another. The requirement to provide full

5 A description of these terms can be found in Department for Communities and Local Government (2013) ***A guide to the local government finance settlement in England***.

6 Source: HM Treasury (2017), ***Public Expenditure Statistical Analyses 2017*** via CRA database (English local government current expenditure total less: 3.1 to 3.3; 9.1 to 9.6; 10.6).

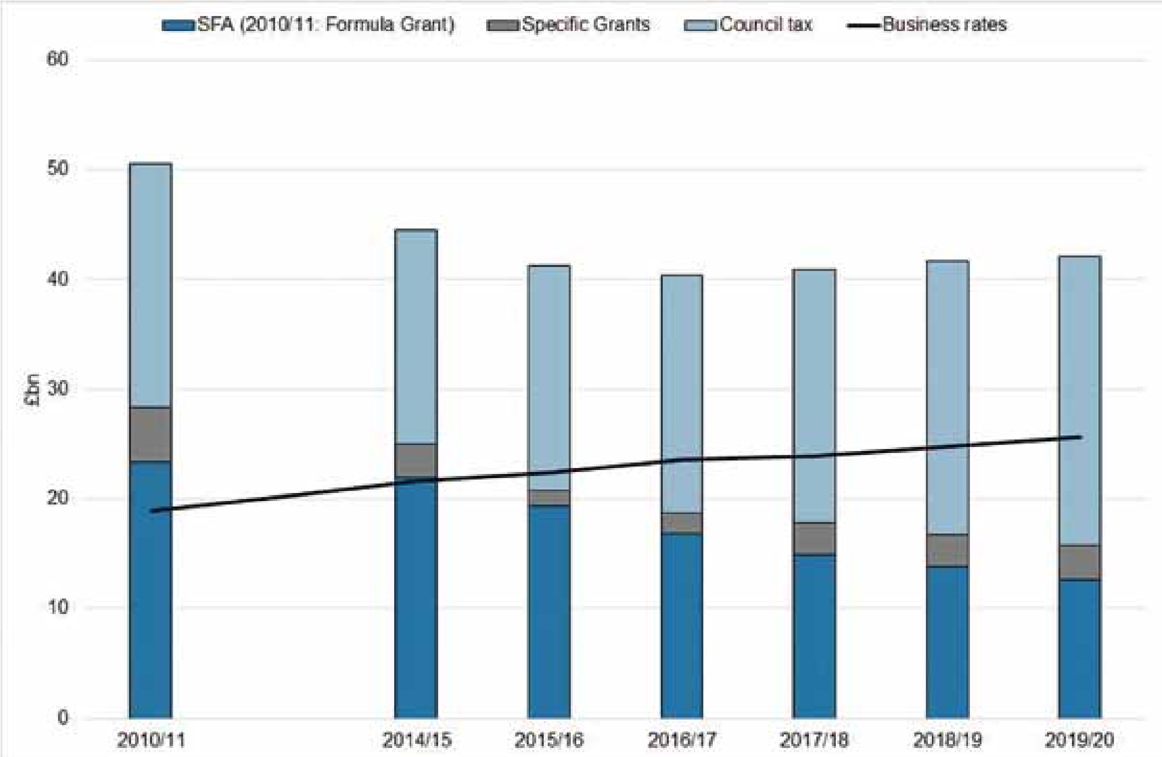
7 This is a fully-harmonised series from 2015/16 to 2019/20. We have taken the public health out of the published 2014/15 CSP figure in order to make it more comparable with the later years.

8 Prior to 2013/14, what is now CSP was named revenue spending power, comprising CT, specific grants and formula grant (RSG, redistributed business rates and in some cases Police Grant).

council tax support to certain groups is one example of this. Mentioned to us in Wales,[9] it applies in England too insofar as it was central government who decided pensioners should still be eligible for full support, irrespective of the financial implication for LAs.

Uncertainty over what business rate income will really be is another source of financial pressure mentioned by interviewees. Managed by the valuation office rather than the LA, there is a backlog of appeals which means that LAs need to set funds aside in case a business wins an appeal.

Figure 2. Core spending power and business rate income



Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities and Local Government.[10]

As well as these financial pressures, growing demand creates pressure of its own. In the short term, a growing council tax base produces extra income. But as the number of homes grows there will, at least after a while, be a growing demand for services, including both neighbourhood services and schools.

Above all, social care remains a source of pressure – but as more than one interviewee stressed, this is not just about adults. While LAs face continuing budget pressure on adult social care, this is both publicly acknowledged and at least partially alleviated by the social care precept within council tax and the Adult Social Care Support Grant.[11] By contrast, the pressure from children's social care, especially for looked-after children, was a widespread and current issue for LAs which was still little acknowledged.[12] One interviewee attested that all councils in their combined authority area faced budget over-runs because of the cost of looked-after children. Cuts in provision (such as children's centres) and the value of social security benefits were suggested as having contributed to the pressure on children's services.

Against a background of rising demand, rising CSP that fails to keep up with inflation means that the pressure is still severe. The cumulative impact of austerity must also be considered. As we were reminded, 'cuts are never easy' – but finding reductions in the eighth year of austerity is a different

9 The Welsh council tax reduction (CTR) scheme provides full relief from council tax but the Welsh government only funded it fully in its first year (2013/4). The impact on the CTR bill from subsequent rises in council tax in Wales has been borne by Welsh LAs themselves.

10 CSP for 2010/11 uses formula grant as a proxy for SFA. The two parts of the SFA are RSG and BFL. BFL is equal to half of the business rates collected in 2016/17. This is also true in 2019/20 although both these numbers are projections or estimates. In 2017/18 and 2018/19 it is more than half because those years give the pilot LAs more business rate and less grant. By 2019/20 RSG will be reduced to just £2.2 billion.

11 Available in 2017/18 and 2018/19 and worth £390 million across the two years combined.

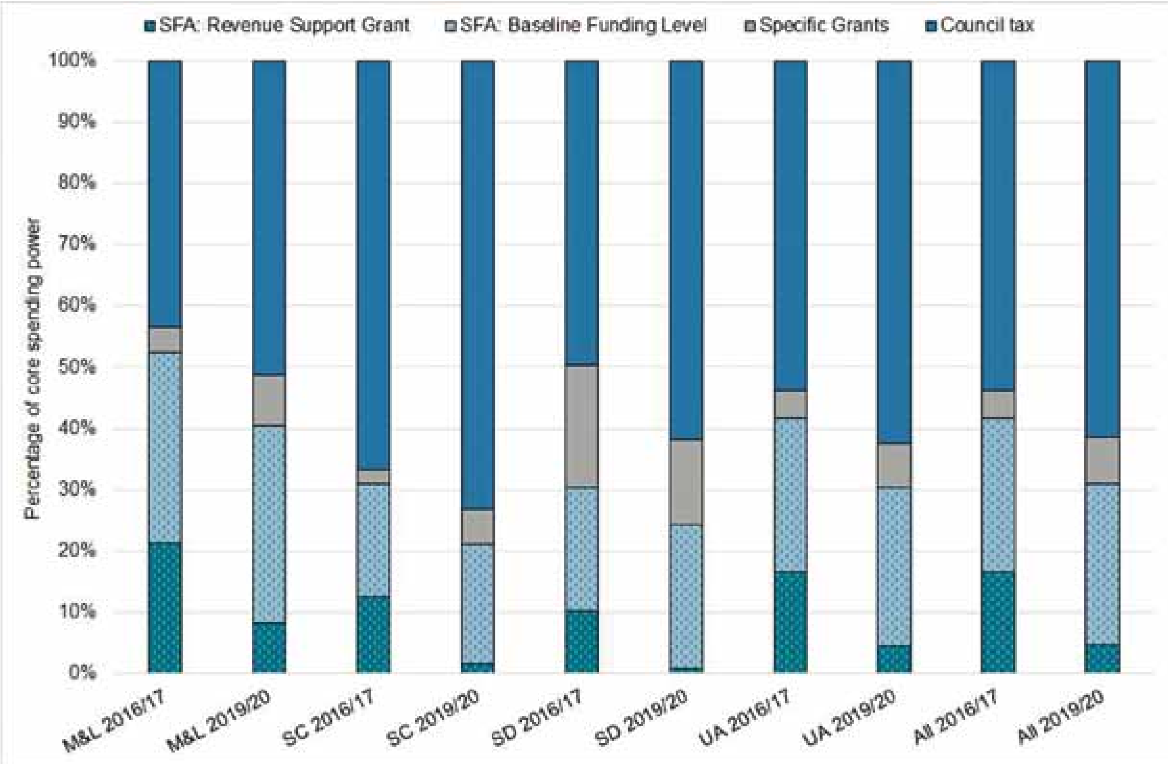
12 In its response to the 2018/19 provisional local government settlement, the LGA put children's services first in the list of pressures on LA budgets.

matter from finding them in the first or second. One aspect of the cumulative effect is what it does to an LA's capacity. We consider this in chapter four.

2.3 Core spending power: council tax up, grant down

One effect that's clear in figure 2 is the steadily rising importance of council tax revenue within core spending power, up from 44% in 2010/11 to 54% by 2016/17 and 62% by 2019/20. As figure 3 shows, although the extent to which CSP depends on council tax varies between the different types of councils, it is going up for all of them. By 2019/20, shire counties will have the highest dependence, deriving 75% of their CSP from council tax. London boroughs and metropolitan districts will have the lowest, with just 51%.

Figure 3. Core spending power components by local authority type



Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities and Local Government.[13]

Although always more important in London and the metropolitan boroughs, the share of CSP coming from the baseline funding level – in effect retained business rate income – is almost unchanged over the four years for each of the LA types. This means that as council tax becomes more important, so it is the other, grant income from central government which is becoming less important.

Not only is the share contributed by grants coming down – from 21% in 2016/17 to 12% four years later, so the mix is changing, with RSG coming down even further, from 17 to five per cent, and specific grants going up (from five to seven per cent). RSG will become even more concentrated, with two thirds going to London and the metropolitan authorities and 20% to unitary authorities. Shire counties and districts will share just over 10%. While they will still get a bigger share of CSP from specific grants (14% in 2019/20) than any other LA type, shire districts will see a fall in the total amount of specific grant money coming in.

13 London boroughs and metropolitan districts are combined in this chart for convenience. Since the numbers for the two types are almost identical, no information has been lost as a result.

2.4 Conclusion: local government's 'reverse subsidy' to central government

By 2019/20, 88% of CSP will come from the two taxes, council tax and business rates, which are collected locally. This figure will be even higher for counties: 93%. Even London boroughs and metropolitan districts will be getting 84% from these locally raised taxes. But central government's 12% – one pound in eight – is only its gross contribution, that is, what it gives back. To work out its net contribution, what central government gives back must be compared what it keeps for itself from the taxes collected by local government. This net contribution has not just shrunk but has turned negative.

To see this in figure 2, it is enough to compare the income raised from business rates with the sum of specific grant and formula grant (in 2010/11) and specific grants and settlement funding assessment in 2015/16 and 2019/20:[14]

- In 2010/11, grants exceeded business rates collected by £9bn. Differences between formula grant and SFA mean that £9bn may slightly overstate the central contribution when compared with later years. Against this, the fact that council tax benefit, paid by central government, appears as part of council tax means it understates it. Taken together, something around £12bn would be a fair estimate of the net central government contribution in 2010/11.
- By 2015/16, business rates collected (£22bn) exceeds the SFA plus specific grants (£21bn) for the first time. When CSP was introduced, it included the public health grant. This measure of it does not but if it is put back in, 2015/16 is when the net contribution from central government approaches zero.
- By 2019/20, the SFA (13bn) will be worth just half of the income from business rates. Adding £3bn worth of specific grants and £3bn for the public health grant[15] leaves locally raised revenue exceeding the spending for which local government is responsible by £7bn. That is the extent of local government funding of central government in 2019/20.

The simple interpretation of this is that local government in England now funds central government rather than the other way around. This reverse subsidy first appeared clearly in 2017/18 and it is set to grow year by year. Of course, this interpretation depends on what counts as 'local': if the dedicated schools grant were attributed to local government, for example, central government funding of local government would rise by £27bn (in 2018/19), swamping the reverse subsidy.[16] [17] We are not suggesting this is likely, only that it will soon take something on that scale to achieve the effect. As it is, our interpretation uses estimates of the gross grant from central government which goes beyond CSP by including the public health grant.

14 Since council tax appears in both income and spending, it can be ignored for this comparison.

15 Department of Health and Social Care (2018) *Public health grants to local authorities: 2018 to 2019*.

16 £27bn being the value of the 2018-19 DSG allocation after deductions for academies recoupment and direct funding of high needs places.

17 Education and Skills Funding Agency (2018) *Dedicated schools grants (DSG): 2018 to 2019*.

3. Localising business rates: need and local funding capacity

3.1 The localisation of business rates

The idea that English local government will retain all the taxes that it raises is as simple as it sounds. Individual LAs already keep the council tax they raise. The main change needed to allow local government to keep all the tax it raises therefore concerns business rates. A government consultation paper at the start of 2017 was quite clear what '100% business rate retention' by local government meant:

> *In October 2015 the Government committed that local government should retain 100% of taxes raised locally. This will give local councils in England control of around an additional £12.5 billion of revenue from business rates to spend on local services. To ensure that the reforms to business rates are fiscally neutral some existing central Government grants will be replaced by additional retained business rates.*[18]

What is not simple is making this work for individual LAs. If differences between LAs are deemed to be too large, some way of damping the effects is required which still also leaves each LA with an incentive to increase its own business rate income. Since 2013/14, individual LAs have been allowed to keep 50% of any real growth in business rate income (that is, after inflation). From 2017, pilot schemes allowing groups of LAs to keep 100% of the business rate raised locally began. The number of pilots increased in 2018. From 2020/21, the government has said that all LAs will keep 75% of the business rate raised locally.

It is important to be clear how big a change has taken place here. When central government funded local government through grants, the principle on which grant was given out was that local needs should be met. Complaints to central government about unrecognised need, growing funding gaps, unfunded commitments and the like were admissible under this system even when they were rejected. By contrast, when the principle is that local government should fund itself, such complaints no longer make sense. The adult social care precept shows that the best local government can now hope for is to be allowed to fund an unmet need by raising more tax locally. Central government grant will never disappear because national politicians like to give out money. But those grants will no longer be provided automatically, on a systematic and transparent basis that applies to all LAs alike.[19]

3.2 How well does local funding meet local need?

Even though local government funding is no longer based *explicitly* on need, might funding still not follow need *implicitly*? For example, a high-need LA might be able to cope with the near-disappearance of central government grant if its own local funding capacity is strong. To try to get a sense of the big picture here, we have looked into this question for each type of LA separately.[20] To be more precise, our question is this: do LAs with a higher level of need have better prospects for funding themselves locally than other LAs *of their type*? If so, localisation is at least a step forward for some LAs even if it is not a complete answer.

To investigate how far this might be so, we have used each LAs rank in the Index of Multiple Deprivation as a proxy for local need and then calculated how strongly that is correlated with each of the following:

- The change in total spending (measured by the percentage change in CSP and the public health grant – 'CSP+') between 2014-15 and 2017-18. Over this period (which does not include the early years of the decade when grant reductions were especially large), how far did more deprived LAs continue to experience bigger falls in total spending?
- The share accounted for by council tax in CSP in 2017/18. A high share of CT in CSP is positive for local funding because the percentage increase in CSP from a given percentage increase in

18 DCLG (2017) ***100% Business Rates Retention: Further consultation on the design of the reformed system***, para 1.1.

19 In our (now somewhat hazy) view, transparency began to disappear from the system of English local government finance as long ago as 2003.

20 A recent report by the Institute for Fiscal Studies (2018) ***Spending needs, tax revenue capacity and the business rates retention scheme*** has looked into this question for individual LAs.

CT is that much larger. Do more deprived LAs tend to have a bigger or smaller CT share – or is there no clear link?

- The percentage growth in local business rate income between 2014-15 and 2017-18. Assuming that what has happened to business rate income in this period is some guide to future prospects, strong business rate growth over this period is positive for local funding. Within each LA type, have more deprived LAs seen higher or lower growth in business rate income?

The results are set out in table 1. Since the measure of deprivation used is the Index of Multiple Deprivation for lower tier LAs, counties cannot be shown here because they are not included in that particular version of the index.

The first thing to be clear about when looking at table 1 is the sign. The calculations have been done in such a way as to mean that a negative correlation can always be interpreted as a worse outcome for more deprived LAs within each particular type. For example, the negative result shown in the first column for London means that more deprived London LAs have tended to see bigger falls in CSP^+ since 2014/15 than less deprived ones. The connection between deprivation and fall in CSP^+ is not perfect but it is unambiguous. The second thing to be clear about when looking at this table is that the results are only intended to give an impression of the overall pattern.[21] For this, it is enough to look at the words in the table ('negative', 'no connection' etc.) rather than the statistics themselves.

Table 1: deprivation, CSP^+ and local funding prospects: by authority type

	Change in CSP+ since 14/15	CT as percentage of CSP+	Business rate growth since 14/15
London boroughs	Strongly negative (-0.64)	Strongly negative (-0.86)	Positive (+0.53)
Metropolitan districts	No connection (-0.15)	Strongly negative (-0.88)	Positive (+0.31)
Shire districts	Negative (-0.58)	Negative (-0.44)	No connection (-0.09)
Unitary districts	Strongly negative (-0.89)	Strongly negative (-0.93)	Negative (-0.29)
All LAs	Negative (-0.44)	Strongly negative (-0.61)	No connection (-0.07)

Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities and Local Government and English indices of deprivation 2015, Ministry of Housing Communities and Local Government.

Leaving aside the bottom row showing the results for all lower tier LAs treated as a single group, eight of the 12 results are either negative or strongly negative. The interpretation of this is that in general, the more deprived an LA is within its group, the worse its situation is. This is clearest for the second column showing the CT share in CSP^+ where the result is strongly negative for all types except shire districts where it is merely negative. This result means that more deprived LAs get a smaller proportionate increase in their core spending power from a given percentage increase in council tax than less deprived LAs. The result is even strongly negative when all LAs are treated as a single group.

By contrast, the results in the first column, though still negative overall are less clear cut. The connection between deprivation and falls in CSP^+ since 2014/15 is strongly negative for unitary districts and London boroughs. Metropolitan districts show no clear pattern at all.

The main exception to the overall negative impression is that more deprived London boroughs and more deprived Metropolitan districts have had stronger business rate growth recently than their less deprived counterparts. This effect within London is more pronounced than it is among Metropolitan districts. Among both the shire districts and overall, there is no connection between an LA's level of deprivation and its recent business rate growth.

It is uncertain how much weight can be placed on this modestly positive result. It is subject to the usual warning that past financial performance is not necessarily a guide to the future. The calculation

21 The words are associated with the statistics quite simply: 'strongly negative' (-1.0 to -0.61); 'negative' (-0.6 to -0.21); 'no connection' (-0.2 to +0.2); etc.

carried out here also says nothing about how much help stronger business rate growth offers relative to what might be needed. Nevertheless, the positive result does suggest that on average, deprived London boroughs and deprived Metropolitan district stand to gain from an increased reliance on local business rate income. For them at least, the future does not necessarily look quite like a continuation of the recent past.

By contrast, the prospects for deprived unitary authorities looks every bit as bleak as the recent past. All three results in the unitary row are negative, two strongly so. Even past business rate growth has been weaker among the more deprived unitary authorities. We think this finding is significant.

3.3 Risk and uncertainty in localisation

The LAs we interviewed observed that localisation had altered council thinking with more talk about council tax and business rate revenue. In particular, retention of business rate income has changed the focus of regeneration. There was more willingness to put council money into regeneration now there was a greater chance of it being recovered though higher council tax and business rate revenues. There was also more emphasis on helping small businesses start up and encouraging them not to relocate elsewhere. These financial priorities for regeneration could create conflict with economic priorities if it meant choosing between businesses that generate more business rate income and those that generate more jobs.

But while the incentives to promote economic growth are now stronger, they are of little value if the potential for economic growth is limited. If the tax base is small to start with, a sizeable increase in income requires steady growth for a long time. If the local area is not close to the motorway, it will inevitably be at a disadvantage against its better located neighbours. The growth in the business rate that has taken place is small compared with the settlement funding that has been lost.

However strong its benefits, LAs were acutely aware of the risks associated with localisation of business rates. Business rate income is volatile, especially if just one business makes up a big part of the local tax base. LAs bear the consequences of the often lengthy appeals against a business rate valuation and must make provision against unfavourable outcomes. Although localisation includes a safety net for business rate income set at 92.5% of the baseline funding level, losing 7.5% of funding is still severe.

When risk is transferred to LAs, the story that is told always emphasises the upside for them. Favourably placed LAs, with considerable potential for growth and transformation, can hear that story with enthusiasm. While we deliberately chose to interview some LAs who we thought were facing difficulties, it is clear that for some if not many, risk transfer's downsides loom larger than its upsides.

These risks would be present even if the overall system of local government funding were stable, changing only slowly and predictably. Our interviewees emphasised, however, that they see this as far from being the case. Instead, the risks arising from localisation are surrounded by an uncertainty arising from the way that an LA's financial outlook is dominated by central government policy. To start with, the value of the single most important variable within the business rate scheme – the percentage retained locally – has been and remains uncertain. For those currently working with 50%, the recently announced 75% represents a strengthening of the incentive – but what will happen in the 100% business rate pilots?

Central government pay policy for public sector workers has a big impact on local government budgets. Central government defines local government's statutory duties. Policy shifts around the New Homes Bonus can mean some councils losing money (due to a clash with the timetable for the Local Development Plan) that they had expected to get. As the monies channelled through the NHB are re-routed through to the Better Care Fund, so the allocations to individual LAs will be different. The Fair Funding Review remains a major unknown: LAs who have done fairly well in the last few years due to a growing tax base could see their gains taken away. Business rate revaluation remains a perennial source of uncertainty as does any eventual reset of the baseline funding level. The 2018/19 local government finance settlement allowed LAs to raise their council tax by three per cent with an added two per cent for those with social care duties, but the very existence of upper limits underlines the still dominant position of central government.[22]

22 Informally, an upper limit on annual CT rises applies in Wales too.

3.4 Conclusion: is localisation a game-changer?

For a favourably placed minority with good prospects for business rate and council tax growth, localisation certainly has its attractions. Some London boroughs and some metropolitan districts who have seen big falls in their CSP in the past may be able to claw back some of the ground lost. By contrast, for some deprived unitary districts as well as some unfavourably located shire districts, localisation cannot but represent a worsening of already deeply unfavourable trends.

On top of adverse trends, localisation exposes individual LAs to risks which can sometimes be large. Worse still, local government also faces all the uncertainties arising from the fact that central government still controls the big decisions – and exercises that control in its own interests, business rate revaluation, the business rate reset, fair funding, the design and timing of specialist grants, the designation of statutory duties – to the extent that these decisions remain in central government hands, the very designation 'localisation' is a blind.

The biggest impact of 'localisation' has been to change the subject of the debate between central and local government. For several decades before this one, that debate was centred on need – how to measure it, how much it would cost to meet it, how much money was available for it and how that money was to be allocated. Now, since the advent of the whole apparatus of tariff, top-up, levy and safety net, the subject has shifted from the concrete to the abstract. This sort of structure, inspired by and designed to mimic a market, has a value. But it should not have been adopted until it had been demonstrated that it was likely to work for all and not just some. That has not happened. On top of this failure to examine it in the context to which it is being applied, it is also a system in which arbitrary parameters play a major role. The two most important of these are firstly, whether the scheme is 50, 75 or 100% and secondly, the choice of date when fiscal neutrality is supposed to apply. Had that date been when central government first committed itself to 100% business rate retention in 2015/16, local government finance in England – and via the Barnett formula, Wales and Scotland too – would look quite different from what it is now.

4. Neighbourhood services to 2020

4.1 Context: spending in the recent past

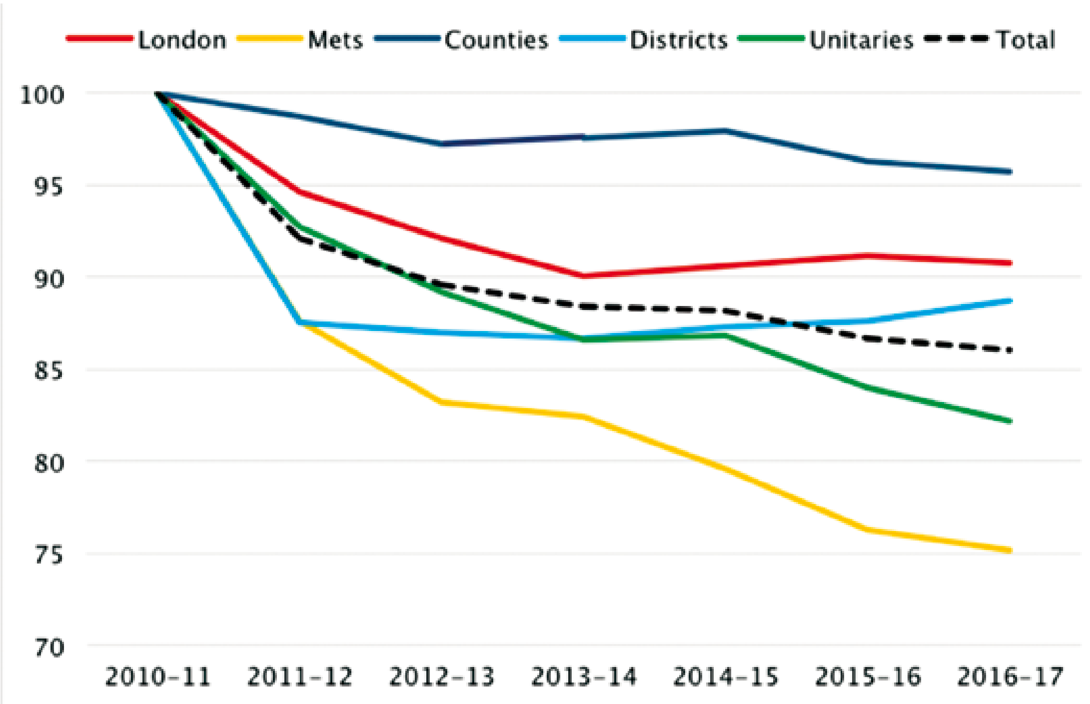
Moving on from how local government funding as a whole has changed, this chapter focuses on neighbourhood services. As noted in the introduction, these are for the most part those local government services which are not part of either education or social care. They cover highways and transport, environment, culture, and regulation and planning.

Following the purpose of the whole report, the focus of this chapter is to try to peer into the future to see on where neighbourhood services are heading. To provide a basis for this, the chapter starts by summarising what has happened to spending on neighbourhood services since 2010/11. This is then followed by a review of what the LAs whom we interviewed told us about how their councils had coped with the cuts in funding experienced over the period. The problem which this section is grappling with is how what have often been draconian cuts in spending have nevertheless left public satisfaction with neighbourhood services more or less untouched. Drawing once more on the interviews, the final part of the chapter then tries to understand how far the present state of neighbourhood services is sustainable even without further reductions in spending.

Before moving onto neighbourhood services themselves, it is important to recall why a study of neighbourhood services should have first concerned itself so much with the *overall* level of local government funding. The simple answer to this is that neighbourhood services are the weakest link in the chain of local government services. This is almost inevitable given both the extent of statutory obligations and the fact that looking after children and elderly adults is politically so sensitive. The sense of this is borne out by recent data on spending which show that on average, a one per cent change in CSP is associated with a 0.35% change in spending on neighbourhood services. This ratio is one quarter larger than neighbourhood services' shaºre of spending in CSP (28%). That implies that cuts to spending on neighbourhood services have been disproportionate to the overall funding cuts experienced by local authorities.

Figure 4 is based on the same data as figure 1 but instead of showing each local authority it show what has happened to spending on neighbourhood services for each different type of local authority (here, unlike figure 1, the upper and lower tier authorities in the two tier areas are shown separately).

Figure 4. Divergence in neighbourhood spending by types of local authority



Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities

Two points stand out here:

- Every type of local authority has seen a fall in spending since 2010/11 but the range between them is considerable, from just four per cent for shire counties to 25% for metropolitan districts. If spending is combined for counties and districts the fall is smaller than for the three other authority types.
- While all authority types saw the biggest fall in 2011/12, the pattern thereafter is different in every case. After several years of holding steady, shire districts have seen spending on neighbourhood services drifting up again. That's also the case for London, albeit after a long fall. Shire county spending has drifted down in recent years. Metropolitan districts have been falling throughout the whole period. Unitary districts have been falling steadily since 2014/15.

On top of the difference between authority types, there are usually wide differences within types too. Table 2 captures this by showing, beside the average fall for each type, the average number of years in which a fall was recorded as well as the averages for the best and worst three of each type.

- In terms of the number of years in which an annual fall was recorded, shire districts recorded the fewest (3.2 out of 6) while metropolitan districts recorded the most (4.5).
- In terms of the difference between the best and the worst overall fall, four of the five authority types recorded a range of around 50%. Both shire counties and London boroughs had their best three recording growth of 25% and their worst three falls of a similar size. The best three unitary districts recorded an increase of 10% while the worst three saw falls in more than 40%. Again by contrast, even the best three metropolitan districts saw a tiny fall (one per cent) while the worst saw falls approaching 60%. Shire districts showed a much wider range, although this reflects one authority whose results seem anomalous.

Table 2. Change in spending on neighbourhood services between 2010/11 and 2016/17

10/11 to 16/17	Average	Av. No of yearly falls	Average of 3 best LA outcome	Average of 3 worst LA outcome
London	-9%	3.5	+25%	-25%
Mets	-25%	4.3	-1%	-57%
Counties	-4%	3.6	+26%	-28%
Districts	-11%	3.2	+46%*	-46%
Unitaries	-18%	4.0	+10%	-41%
Total	-14%			

Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities

Table 3 breaks spending on neighbourhood services down further, between authority types and between types of neighbourhood service. Table 3 shows the change between 2010/11 and 2016/17 for each type of neighbourhood service. Amongst the four types of neighbourhood services, planning and development saw the largest cuts at 28%, followed by cultural services at 24%. Environmental regulation and highways and transport saw smaller falls of three per cent and 11% respectively.

When these percentage changes are related to the underlying size of the budgets in the two tier areas, it appears as if both the upper and lower tiers have protected what were their largest service areas at the expense of their smaller ones. Districts, for whom highways and transportation were already the smallest of the four components of neighbourhood services, nevertheless saw the biggest percentage fall. In the same way, counties saw the biggest falls in the two components of neighbourhood spending – cultural services and planning and development – which had been the smallest in the first place.

Table 3. Change in spending in neighbourhood service between 2010/11 and 2016/17

	Highways & transport	Cultural & related	Environmental & regulation	Planning & development	Total
London	6%	-21%	-9%	-22%	-9%
Mets	-14%	-26%	-11%	-52%	-25%
Counties	-5%	-30%	16%	-26%	-4%
Districts	-51%	-13%	0%	0%	-11%
Unitaries	-14%	-28%	-7%	-30%	-18%
Total	-11%	-24%	-3%	-28%	-14%

Source: Local authority revenue expenditure and financing England: individual local authority data – outturn, Ministry of Housing Communities

4.2 How have reductions in spending been managed?

These statistics, showing an overall 14% fall in spending on neighbourhood services between 2010/11 and 2016/17 set the scene. But in themselves, they say nothing either about how the cuts have been managed or what it has meant both for the services themselves and for LAs' capacity to provide them. This – the impact of the cuts on neighbourhood services – was the main subject discussed with the LA interviewees. The responses to these questions reported here include those from the Welsh and Scottish LAs as well as those from England.

The first thing that was clear from all of the responses was that whatever had happened, it certainly was not a simple, across-the-board cut in service provision more or less proportional to the fall in spending. As a rule, front line services had been protected. Cuts had been managed through a combination of intensification (providing the same with less resource), innovation (sometimes radical) as well as extra charging where possible.

Several interviewees said their authority had seen cuts coming, sometimes several years in advance. The pressure was severe, with most interviewees observing that neighbourhood services had been caught between the overall fall in funding and the increasing demand from other services, many of them statutory. Neighbourhood services had been disproportionately affected.[23] Despite this, interviewees thought their authority was still providing all the services that it had done before although in some cases at least, at a reduced level of quality.

To achieve this outcome – a surface appearance of continuity and normality in neighbourhood services – LAs have used a range of approaches. As they were described to us, the main ones are as follows:

- Reduced staffing levels. Most LAs had a voluntary redundancy policy and/or had not recruited to vacant posts so they had avoided compulsory redundancies over the past eight years.[24]
- Greater flexibility in the roles played by staff. Staff who remained were used more flexibly to fill the gaps that had been created. In one area, roles such as street cleaning, grass cutting and rubbish collection had been combined into one generic role so the employees could be redeployed easily to any services.
- Use of volunteers. One LA had recruited volunteers for the library and another to help with street cleaning. This had been combined in one case with the transfer of responsibility for certain facilities (e.g. smaller libraries, community centres, bowls clubs, sporting fields) to the community, to be run by them using volunteers, on a rent-free basis.
- Reorganisation of back-office functions, especially through the use of technology. One LA had deployed a 'digital operating model' to make its back office as lean as possible. This was one

23 This was not true for the interviewees from a shire district where the large majority of the services they provided were neighbourhood services and the responsibility for social care lay with the county council.

24 This was also the case in Scotland but they were at a much earlier stage on the process than LAs in England and Wales and had not yet lost such a large proportion of their workforce.

instance of wider efforts to centralise administration and use fewer people to deliver it.

- Targeted spending. Where possible the frequency at which a service was provided was reduced, for example the grass was cut less often. To manage the adverse effects of this, resources were concentrated in areas that were felt to matter more to the public as these could generate a higher number of complaints if neglected.
- Reduced investment. In some services, resources had been shifted towards repairs (such as filling pot holes) and away from investment (for example, in highways) that would reduce the need for repairs in the first place. Under-investment was not restricted to physical infrastructure: for example, spending on training and staff development had been reduced too.
- Increased charges. All the LAs we spoke to had increased or introduced charges for some of the optional services they provided to residents. This was the case even if it had been politically difficult or members had initially resisted this change.
- Greater commercialisation. Some LAs had started or increased their efforts to seek out commercial work, often competing against other LAs for the same contract. Interviewees described a shift in the way services were run, where all front line (neighbourhood) services were now trying to earn an income whenever they could.
- Drawing upon financial reserves. Having seen reserves rise in earlier years even while spending on services was reduced, some LAs took the decision to use some of these recently accumulated reserves to defer or reduce spending cuts for a year or two[25], even if these would still eventually have to be made. Another LA reported using reserves to manage their increased spend on children's social care.

4.3 Conclusion: are neighbourhood services sustainable?

Most interviewees felt that it was increasingly difficult to make the cuts that they were required in both 2018/19 and 2019/20, the final two years of the funding settlement period.[26] Savings behind the front-line had been made so it was the front-line neighbourhood services themselves that would now start to bear the brunt of further reductions in funding. Tough choices lay ahead: the LA would need to start choosing *between* front-line services, prioritising some at the expense of others.

The obvious retort to this is that if the LA has made all these cuts up to now whilst protecting front-line neighbourhood services, why can it not go on doing so next year and beyond? One answer to that is that when past reductions have been achieved through a programme of investment (in technology), once that programme comes to an end, further reductions cannot but require a different approach.

A second answer is that if reductions have been cushioned by drawing down reserves, that approach too cannot carry on indefinitely. On average, unallocated reserves held by English local authorities fell by six per cent over two years between March 2015 and March 2017. But over the same period, eight LAs reduced their unallocated reserves by more than 50% while a further quarter reduced them by between 25 and 50%. In themselves, figures like this can do no more than pose a question. Our interviews showed that the use of reserves can be planned, reasonable and explicitly time-limited. They also showed that they can be sign of an LA under serious stress. Whichever, the use of unallocated reserves demonstrates a mismatch between the current level of services and the current resources available to provide them. In short, current levels of service are unsustainable.

An image this suggests is that of a tipping point: that LAs have managed up to now but in future will not be able to. In a very few cases, it may be appropriate. From what interviewees told us, however, it is an image which in general seems to us to be misleading. There are two things wrong with it. The first is the very idea of a point beyond which a local area suddenly suffers a widespread and sustained failure of neighbourhood services. Even in their reduced state, neighbourhood services are still too large, varied and resilient for there to be a cliff-edge over which they could all topple, more or less together.

Second, if the idea of neighbourhood services falling off a cliff is wrong, so too is the idea that as long as that does not happen, all is well. For what our interviews show is that even if front-line services

25 One reason why reserves had risen (unexpectedly) was that under a regime in which all spending had to be authorised in advance, unplanned overspends had become unlikely. By contrast, underspends remained possible. One LA reported that there was a previous deficit in the highways and transport budget had now become a surplus.

26 At the time of writing, the budgets after this data are not yet confirmed so councils are unsure of the scale of savings they may have to make.

have been protected up to now and the public remains sanguine, that does not mean the way that cuts to neighbourhood services have been managed has not come at a cost whose full bill is yet to be presented.

Interviewees spoke about how greater flexibility in the roles played by staff has meant specialists being replaced by generalists. This carries risks. Voluntary redundancy has meant a loss of know-how. Reduced levels of staff have exacerbated this loss. Although it is usually older staff who take voluntary redundancy, the workforce is still ageing because too few new and younger employees are being recruited. Even if staff numbers were to stop falling, these problems would persist without a substantial investment in training. Levels of know-how and judgement learned on the job could take years to restore.

There are limits to what volunteers can do about rubbish: collecting litter, perhaps, we were told, but not dealing with fly-tipping. Yet if litter left to volunteers slowly builds up thereby encouraging fly-tipping, the level of resource devoted to waste collection today is not sufficient to maintain the standards achieved today.

If cumulatively lower investment in public assets (e.g. community centres) is now adversely affecting the income that can be generated from the assets, future revenue potential is impaired. The net saving from foregoing investment is less than the gross saving. The current provision of public facilities, even if sustainable up to now, may not be in the future. Without extra investment, interviewees anticipated those facilities being reduced from their present level.

When the use of technology to deliver savings in operating costs has extended beyond the back- and middle-office to the services used directly by the public, there is the possibility that this will not, at least for all local residents, prove acceptable or sustainable. Checking online to see when the next bin collection is due is one thing. Using an online form to contact the council about something sensitive like noise from a neighbour is quite another.

Reduced staffing levels, we were told, has done lasting damage to LAs' capacity to deliver neighbourhood services in three respects. First, staff who are managers now spend a large amount of their time implementing cuts and making efficiencies leaving them little time to do strategic planning. Pre-occupied with dealing with today, LAs are ever less in control of their destiny.

Second, the increased workloads and resulting lack of spare capacity means that that change takes longer to implement. Third, that same lack of capacity means that when an unexpected problem strikes – for example, the high levels of snowfall delivered by the 'beast from the east'- the LA has to divert resources from regular work. In short, LAs' ability to cope with the unexpected is impaired.

In short, even if LAs are keeping up the appearance of their neighbourhood services, their capacity to carry on doing so, even at *current* levels of funding, is impaired. Given the disparity in spending on neighbourhood services shown in figure 1, this conclusion does not apply to all parts of England. But it does apply in Wales and Scotland. The observations from interviewees recorded here mix Welsh and Scottish responses with English. While the specifics are different and perhaps the timing too – Scotland's LAs are on the same path as England's though some years behind – the account we heard was not fundamentally different.

5. Conclusion: saving neighbourhood services

This report set out to answer three questions.

First, when we look at overall funding for local government, how do the next few years compare with the recent past? With overall core spending power rising slightly in cash terms, the period since 2016/17 has certainly been quite different from the years that led up to it. Despite this break, the long-term trend towards an ever-greater share of local government funding coming from locally-raised taxes continues uninterrupted. Now well past the point where the total amount raised locally in council tax and business rates is equal to core spending power, local government now subsidises central government rather than the other way around.

Second, does the shift towards a greater reliance on local funding sources represent a new and more positive framework for English local government? For some authorities with good prospects for business rate and council tax growth, a greater reliance on local sources of revenue offers better prospects relative to the average, than in the past. Some London boroughs and some metropolitan districts who have seen big falls in CSP in the past may be able to claw back some of the ground lost. But for some deprived unitary districts as well as some unfavourably located shire districts, localisation represents a worsening of already unfavourable trends.

Third, what is the legacy of this recent past, not just in terms of things like potholes which need fixing but also in terms of local government's capacity to deliver neighbourhood services? Based on our interviews, it appears that the priority of protecting the front line has come at the cost of reducing LAs' capacity to change and adapt, cope with unexpected problems or think and act long-term. An aging workforce, losing expertise, is working with a stock of assets suffering from chronic under-investment. Higher expenditure sustained over several years, would be needed to reverse this. Those we interviewed thought that it was no longer going to be possible to protect front-line services as had happened up till now.

What might it take to reverse this? From the comfort of a seat the stands, we would respectfully like to press five propositions upon local government and its leaders.

1. Mount a public defence of neighbourhood services. As our interviewees testified, neighbourhood services are popular with the public and elected members alike. Elected mayors prioritise them which is both a blessing for senior managers (support) and a curse (pressure!). As APSE insists, neighbourhood services are universal services. We have argued before that they are insufficiently known: it is not just about bins. Once they are listed their importance is almost always self-evident. This importance is an opportunity but it cannot be taken for granted. If front-line services are now beginning to take the hit, local government needs to be ready to explain why.
2. Recognise that neighbourhood services cannot be defended without defending local government in general. Given the extent of statutory duties within, and the political sensitivity to, child and adult social care, neighbourhood services are bound to be squeezed first. Statistics confirm this. If neighbourhood services cannot hope to win a higher priority than other services, their defence depends on local government having more money.
3. Highlight and urge an end to the reverse subsidy. Of course, this is only relative to a particular definition of local government spending. But it is central government's definition; and it corresponds pretty well to the areas where local government has discretion. It may be contentious but it is consistent. While the government could change the position with a stroke of a pen, the subsidy is already so large that it would need something pretty big to do so. The idea that local government now funds central government is a both a striking image – and a valuable defence and explanation for disgruntled local taxpayers.
4. Pin fiscal neutrality to the date when it was first proposed. 2015/16 was when income from business rates was first equal to the SFA, specific grants and the public health grant combined. 2015 was also when central government committed itself to the 100%

business rate retention. If full localisation had taken place then, fiscal neutrality would have meant the loss only of the RSG and the specific and public health grants. As time goes by and the SFA falls while business rate income rises, other grants have to be drawn in to satisfy fiscal neutrality (and compensate central government for the loss of the reverse subsidy). This should be resisted.

5. Restore 'need' to pride of place in the debate about local government funding. 'Need' is a bottom up approach to what local government has to do and the funding it requires to meet it. Though endlessly contentious, it is contention stood on solid ground. By contrast, the language of incentives around business rate retention is an abstract, top-down approach to mimic a market. It is not without value but its merits cannot be determined without attention to the context. The analysis in this paper which concludes that while it may be good for some, it is hopeless for others delivers a verdict which should relegate it to a supporting role only. In its place, local government should push for a system of funding whose test is that it works for the least well-placed LAs among them. It is not hard to work out who they are.

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