

East of England local authorities' financial resilience in order to be partners for sustainable, inclusive growth

Background Briefing the On-line APPG meeting on Thursday, 3 November 2022

Councils across England have been exposed to the twin pressures of financial constraints and increasing service demand since austerity was introduced in 2010/11. Despite Government interventions (such as the 'fair funding review'¹), councils have limited resources whilst pressures to deliver services increase². The situation is getting worse with growing inflation, the scarcity of resources (both labour, energy, and natural resources/materials), and - more generally - the cost-of-living crisis, all eroding the purchasing power of councils.

The East of England (EoE) faces particular challenges coming from having the largest population increase in England over the last ten years (488,000 more residents, or a growth of 8.3%)³, and also an increasingly ageing population. In England, from 2011 to 2021, the population aged 65 years and over increased by 20.1%, and the EoE is the region with the third highest share of residents aged 65 years and over. While councils strive to tackle these pressures, the cumulative impact of these events have severe consequences on councils' financial resilience⁴ - unless there is additional support from the central government⁵.

This briefing report will discuss how councils in the region manage major sources of funding in order to deliver a wide range of services to their communities. Following reductions in Government funding and councils' lack of flexibility in raising local tax rates, this briefing report also explores the difficulties councils face in obtaining funding and provides suggestions on opportunities available to make funding accessible to councils and/or grant them the flexibility to spend based on their needs and responsibilities.

Services provided by EoE local authorities

Table 1 compares the expenditure of different classes of EoE local authorities in 2020/21 against national spending trends. The report excluded education services and police to provide comparative results and despite qualitative evidence from interviews with EoE councils pointing out the escalating costs of providing services for those with special educational needs.

Services	East of England			England (except London)		
	UA	CC	DC	UA	CC	DC
Children Social Care	23.98% ↑	19.92% ↓	0.02% ↓	21.19%	21.85%	0.05%
Adult Social Care	35.71% ↓	50.82% ↑	0.18% ↓	38.08%	48.11%	0.43%
Highways and transport	5.20% ↓	7.43% ↓	1.99% ↑	5.80%	7.50%	1.20%
Public Health	7.05% ↓	7.23% ↑	0.79% ↑	7.44%	6.99%	0.36%
Cultural and related	3.61% ↓	2.14% ↑	16.63% ↑	5.01%	2.12%	16.34%
Environmental and regulatory	10.18% ↑	6.88% ↓	25.15% ↓	10.11%	7.43%	27.27%
Planning and development	2.18% ↓	0.68% ↓	13.66% ↑	2.68%	0.78%	13.27%
Housing (GFRA only)	5.22% ↑	0.39% ↑	10.83% ↓	3.73%	0.32%	11.41%
Fire and Rescue	-	2.83% ↑	-	-	2.00%	-
Central services	6.88% ↑	1.69% ↓	30.73% ↑	5.95%	2.89%	29.67%

Table 1 - Comparison of EoE LA's expenditure in 2020/21 against national spending trends, per class⁶

Note: UA (Unitary Authority), CC (County Council), DC (District Council). Arrows compare EoE to the England average – Upwards means above England average; downwards means below England average.

As shown in Table 1, EoE unitary authorities allocated nearly two-thirds of their income to the mandatory service of social care (adults and children), while EoE county councils spent more than two-thirds of their income on social care. Moreover, compared to similar regions in terms of deprivation (SE and SW), EoE counties spent about 3% more on adult social care and have the lowest rates of expenditures on cultural, planning and development, and central services.

EoE local authorities, especially county councils, are therefore facing a situation similar to the ‘*Barnet Graph of Doom*’, which predicted that vulnerable councils may need to allocate over 90% of their income on social services by 2024/25, if there were no significant changes to the way of funding⁷. The potential implication of such a scenario are that Councils may be forced to cut on other discretionary services and provide only the legal minimum - unless significant changes are made to their funding.

Previous research pointed out that even the less vulnerable councils that were in a stronger financial position have had to make difficult decisions in recent times about the provision of statutory, rather than discretionary (non-statutory) services⁸. To address the issue and help maintain the standard of services expected local citizens, councils will need to access more funding to provide statutory and discretionary services.

Overview of funding for English councils and the funding landscape for the EoE

English local authorities have four principal sources of finance in terms of revenue funding: (1) Council tax, (2) Non-domestic rates, or ‘business rates’, (3) Local fees and charges, and (4) Central government grants (including recurrent, ‘one-off’, or competitive (bid-based) grants). Government grants to local authorities have declined steadily over the years. The UK National Audit Office reported a 49,1% decrease between 2010/11 and 2017/18⁹. Moreover, COVID-19 generated £6.9 billion of cost pressures for local authorities in 2020-21, while the government allocated non-ringfenced funding totalling £4.55 billion¹⁰.

Figure 1 shows that the core funding available for EoE local authorities has also decreased over the last five years to the point where EoE is now the most disadvantaged region when analysing the most recent data from the Revenue Account Budget in 2022/23. Between 2018/19 and 2022/23, the total grants received by local authorities in the EoE decreased by 3.9% - making it one of only two regions (alongside the North-East) where total grants from the government declined. EoE local authorities receive £793.90 in grants per capita, representing 86% of the amount granted to the South-East – comparable in terms of deprivation.

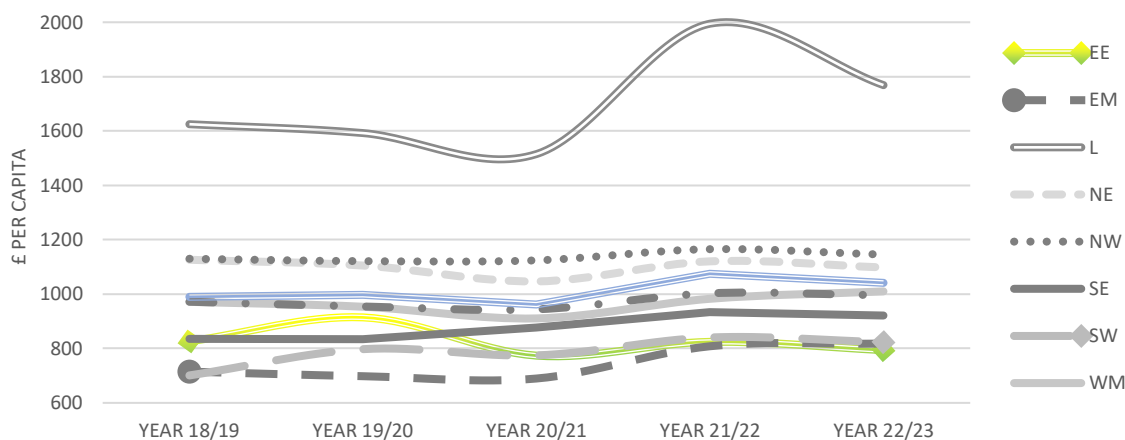


Figure 1 - Total (inside and outside Aggregate External Finance - AEF) Specific and Special revenue Grants – all LA's classes - per capita¹¹

When looking specifically at the different classes of local authorities, Table 2 provides evidence that County Councils and Unitary Authorities in the EoE receive fewer grants than their counterparts in other regions of England. In contrast, District Councils in the EoE are better off than the same class of local authority in other regions.

Region	District Councils (per capita)	County Council (per capita)	Unitary Authorities (per capita)
EoE	£ 211.07 [1 st]	£ 594.37 [6 th]	£ 748.20 [8 th]
EM	£ 150.52 [6 th]	£ 604.00 [5 th]	£ 928.66 [4 th]
NE	-	-	£ 950.83 [3 rd]
NW	£ 165.92 [4 th]	£ 958.78 [2 nd]	£ 989.25 [1 st]
SE	£ 203.12 [2 nd]	£ 698.45 [3 rd]	£ 964.28 [2 nd]
SW	£ 186.33 [3 rd]	£ 632.84 [4 th]	£ 825.72 [7 th]
WM	£ 137.55 [7 th]	£ 570.82 [7 th]	£ 910.42 [5 th]
YH	£ 161.41 [5 th]	£ 1008.87 [1 st]	£ 832.60 [6 th]

Table 2 – Total (inside and outside AEF) Specific and Special revenue Grants in 2022/23, per class of LA¹²
Note. The table contains only classes of local authorities present in the EoE.

Figure 2 – below - shows the proportionate share of major funding streams for EoE Local Authorities for 2020/21. Analysing the most updated revenue outturn data available, EoE councils received less than average unallocated grants (inside Aggregate External Finance, but not allocated to specific services) from the government (with East Midlands receiving the least) in 2020/21. In the same period (2020/21), EoE councils mobilised the third largest proportion of council tax compared to other English regions. The figures indicate that EoE councils were compelled to mobilise funds locally from businesses (retained income from Business Rates Retention Scheme, BRRS) and households (council tax) – in other words transferring part of the financial pressures to their residents.

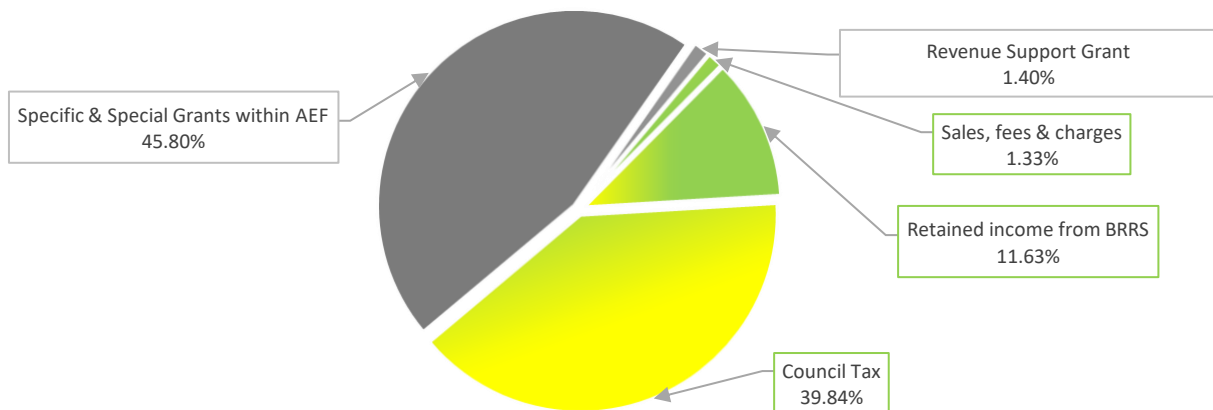


Figure 2 - Share of major funding streams for EoE Local Authorities - 2020/21¹³

Table 3 shows that EoE District Councils rely even more on funds raised locally (82.18% of their total revenues against 50.65% for County Councils and 44.73% for Unitary Authorities) – which may link to the types of services they provide and the lack of funding streams to these services. Moreover, Districts are more exposed to income-generating services (7.3% of revenues from sales, fees & charges).

Class of LA	Revenue Support Grant	Sales, fees & charges	Retained income from BRRS ¹	Council Tax	Specific & Special Grants within AEF
District Council	0.52%	7.30%	27.59%	47.29%	17.30%
County Councils	1.25%	0.49%	10.33%	39.83%	48.09%
Unitary Authorities	2.42%	1.19%	7.74%	35.80%	52.84%

Table 3 - EoE share of major funding streams per class of LA¹²

Note: (1) BRRS = Business Retention Rate Scheme.

Figure 3 illustrates the proportion of the four major sources of funding to English councils by region. The Revenue Support Grant is highlighted since it is the primary source of funding from the central government in relation to non-schools' revenue¹⁴, and it is not ring-fenced – i.e., local authorities can spend the grant as they choose in a way that best suits their needs and reflect their priorities for the local community.

Despite the limited flexibility that allows councils to increase council tax by a slight margin (2-3%), it remains a vital source of income for bridging the funding gap created by increased expenditure on services and reduced income from central government¹⁵. EoE councils collected 12.20% (representing £3.4bn) of the total council tax mobilised by English councils (£28bn) in 2020/21 - while it represents 11.21% of the population in England¹⁶.

The introduction of the Business Retention Rate Scheme (BRRS) in 2013/14 meant that English councils could retain a portion of business rates mobilised locally. However, EoE councils only mobilised £1bn from retained business rates, representing 5.36% (of 18.76bn) in 2020/21, making it the region with the third lowest funding from business rates that year.

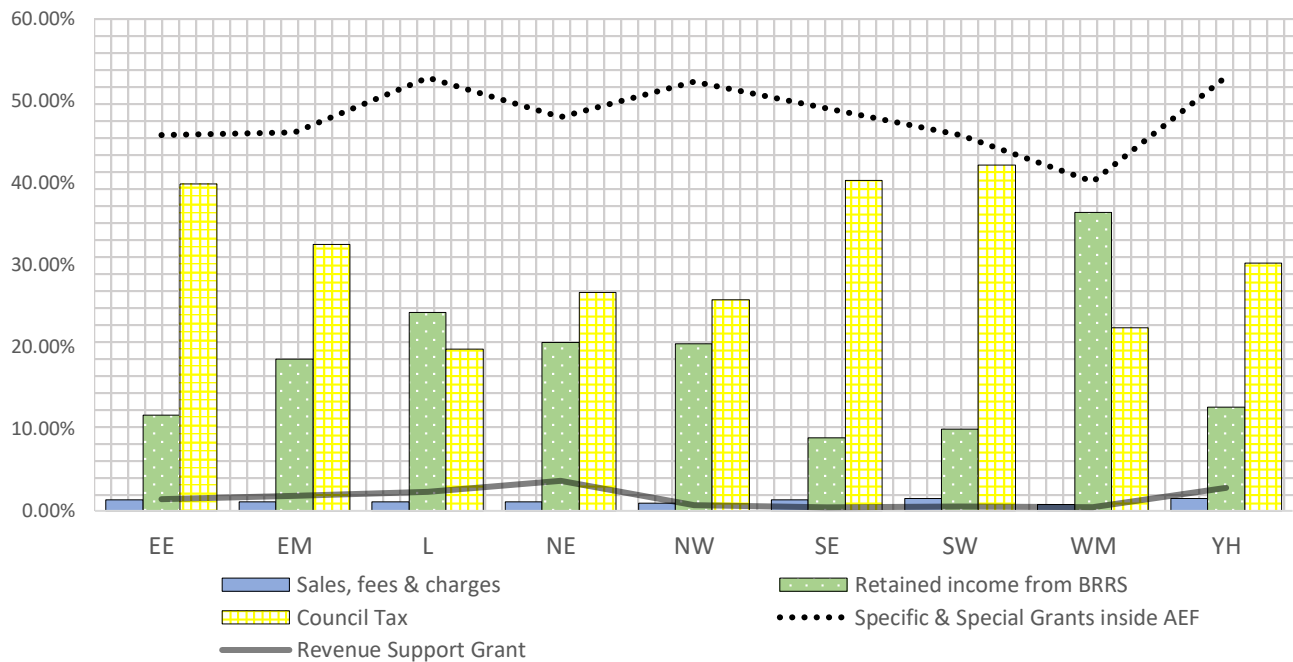


Figure 3 - Major funding streams for English Local Authorities by region - 2020/21¹²

Note: the columns represent funds mobilised locally (e.g., council tax; retained income from business rates; and sales, fees & charges) while the lines represent central government grants.

With the current rise in the cost-of-living crises, it appears unfair to continue transferring the extra cost to residents whose incomes remain unchanged or increase marginally annually to mitigate the effects of a continuous rise in inflation rates. One common way that EoE councils have managed to minimise the burden on residents has been to efficiently use the competitive funding streams.

Access to selected competitive funding (bid-based grants) from the Government by EoE councils

Competitive grants (e.g., the Community Renewal Fund, UK Shared Prosperity Fund, Levelling Up Fund Round One, and Towns Fund) may allow local authorities to complement their core funding.

According to the LGA¹⁷, based on a sample of 366 grants, almost one-third of them are bid-based. Analysing a non-exhaustive list of 22 competitive grants in the past four years (2019/20 to 2022/23), Figure 4 shows that only LAs in London, the South East, and East Midland regions had less access to or received fewer grants than EoE councils during the 4-year period.

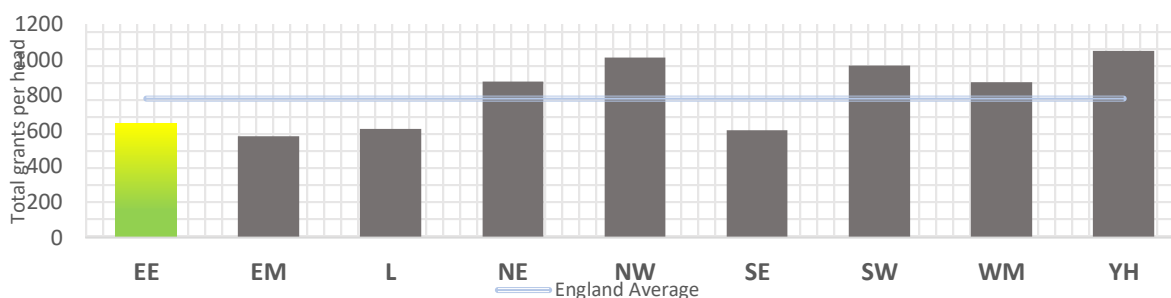


Figure 4 - Competitive (bid-based) grants success from 2019/20 to 22/23

Taking ‘Towns Fund’ as an example, EoE councils successfully bid for £142.9m (£22.6 per capita) to support the ‘Levelling up’ agenda – which is below the England average (£41.6) per person and about four times lower than the funding received by East Midlands (£80.1). This represents the lowest per-capita allocation of any region in the UK.

Conclusions and recommendations

The findings of this report are that not only do EoE councils receive fewer allocations of grants from the central Government but they also struggle to access funds from the extra funding streams available to LAs in comparison to other regions. Meanwhile the persistent occurrence of disruptive events, such as the increase in inflation including fuel prices, and cost-of-living crises, coupled with external events, such as the war in Ukraine, continue to have adverse impacts on councils and further constrains their ability to provide services to communities.

EoE councils will benefit from funding sources that are not earmarked to specific services, allowing councils some flexibility of (re)allocation to fund prioritised services. This would be possible through:

1. **Rethinking (and increasing) Revenue Support Grants:** The growing demand for services coupled with the reduction in Government grants encouraged councils to be more innovative in devising an entrepreneurial approach to mobilising resources locally. Moreover, competitive grants – that are often specific - proliferated, affecting prioritisation within local authorities. Councils now need more access to non-ringfenced sources of funding to prioritise their ambitions and respond to the needs of the local community. Thus, rethinking (and increasing) the Revenue Support Grants is a way to withstand the persistent increase in demand for services and promote councils’ ability to prevent crises by taking spending decisions linked to their local circumstances (rather than following central Government judgement). Surveyed EoE councils confirmed that (at least) considering inflation pressures in determining the level of funding provided to councils should help alleviate pressures on councils.

2. **Reduction of competitive grants incidence:** Bid-based grants, most of which are earmarked, makes it difficult for councils to be agile, flexible and autonomous in their spending decisions. Moreover, competitive grants are centrally designed and targeted to solve high-pressure/short-term demands. EoE councils will benefit from the reduction of competitive grant size and the total application of the savings in introducing additional funding streams that are not earmarked for specific services. In sum, to make the most for local communities, local authorities should access (non-ringfenced) core funding sources rather than several individual service-specific grants.

EoE councils will benefit from the certainty and accurate information regarding funding sources to finance their service provision:

3. **Increasing certainty on Government Grants:** The uncertainty on the level of funding received from central government stems from the one-off nature of some grants and the limited access to bid-based grants - which compounds the pressures on local authorities to make accurate decisions on service delivery. This clearly impacts councils' ability to plan strategically in the medium/long term and makes Chief Financial Officers work with forecasts based on worst-case scenarios. Following comments from a surveyed council, a suggestion would be to provide the Local Government Finance Settlement to cover a longer period (e.g., 2 to 3 three years) and link this to medium-term expenditure frameworks in place - which would help councils anticipate potential shocks that would affect their finances in the medium/long-term. Further, it was suggested by a surveyed council that government should recognise the adverse impact of the increasing demand for social care and provide pots of funding to support councils in meeting such growing demand. These would ensure some certainty for councils and enable them to make better decisions to withstand the growing demand for statutory services.
4. **Revise available information for the bidding processes:** Detailed information regarding funding opportunities should be provided beforehand, so applicants have enough time to develop adequate bids. Moreover, the government could develop a centralised database that compiles all information on bids, rather than pieces of information distributed among websites of different departments, agencies and public bodies. Surveyed EoE councils confirm that the turnaround period for bidding is usually limited (in extreme cases, as short as two weeks), especially when drafts ought to be discussed, approved internally, and signed off by the Section 151 officer. Some deserving councils miss out on these funding streams due to a lack of understanding of how the bidding process works or a lack of internal capacity – see recommendation 5 - to deal with short deadlines. A better laid-out procedure with information provided by the Government on eligibility, bidding, and transparency regarding selection criterion may increase deserving councils' chances of securing these funds.

Competitive grants (bid-based) depend on internal capacities developed within each council. To foster these capacities it is recommended:

5. **Fostering councils' preparedness for bidding processes.** Some EoE councils have robust capacities (staffing and resources) for the bidding exercise, which gives them higher chances to succeed - even when other councils with fewer capacities need the funds most. It would be beneficial to councils if some support is given by training staff of councils with less capacity on the bidding process. The support could be based on a funding stream earmarked for investments in staff and development of areas within the local authorities (e.g. training, employing staff with bidding expertise, etc.) to deal specifically with competitive grants. Previous research emphasises the important role of organisational capacities in making local governments less vulnerable and more resilient in times of crisis¹⁸. Thus, it may be relevant for local governments in EoE to share experiences on successful funding applications and ensure that internal organisation structures are up-to-date and aligned to environmental demands imposed by competitive grant schemes.

6. **Enhanced control over income generation.** Local authorities in England operate in a unique but dynamic environment, which makes almost impossible to apply a uniform structure that applies to all LAs. As a result, some LAs have struggled to maintain the level of services provided despite the support and intervention from government. On this note, the report recommends that LAs be given some level of autonomy (flexibility) to boost their capacity by allowing them generate more income locally. For example, most LAs could benefit from getting more flexibility to increase the amount charged for parking in council-owned properties. Expanding the level of control on income generation empowers LAs to build financial capacities and capabilities to withstand potential pressures that emerge from crises during the post covid era.

¹Fair funding review consultation

² Commons Library Research Briefing - Adult social care funding (England)

³ Census 2021

⁴ Barbera, C., Jones, M., Korac, S., Saliterer, I., & Steccolini, I. (2017). Governmental financial resilience under austerity in Austria, England and Italy: how do local governments cope with financial shocks?. *Public Administration*, 95(3), 670-697.

⁵ Saliterer, I., Korac, S., Barbera, C., & Steccolini, I. (2021). Taking Stock: The Role of the Institutional Context for Local Government Financial Resilience. In *Local Public Finance* (pp. 319-332). Springer, Cham.

⁶ Source: Outturn data of local authority revenue expenditure and financing for the financial year 2020/2021 (Accessed on 04th October 2022).

⁷ Barnet Graph of Doom

⁸ Barbera, C., Jones, M., Korac, S., Saliterer, I. and Steccolini, I., (2018). Local government financial resilience: Germany, Italy and UK compared: with a practical tool-kit for local governments. London: *Chartered Institute of Management Accountants*.

⁹ National Audit Office (NAO). (2018). Financial sustainability of local authorities 2018. Report by the Comptroller and Auditor General: Ordered by the House of Commons, London.

¹⁰ National Audit Office (NAO). (2021). Local government finance in the pandemic. Report by the Comptroller and Auditor General:

¹¹ Source: [Budget estimates of local authority revenue expenditure and financing for the indicated financial years](#)

¹² Source: Budget estimates of local authority revenue expenditure and financing for the 2022/23 financial year

¹³ Source: Outturn data of local authority revenue expenditure and financing for the financial year 2020/2021

¹⁴ A guide to the local government finance settlement in England

¹⁵ MHCLG 2021 - Local Government Financial Statistics (Report)

¹⁶ RS Data (2020/21) - Income for All English LAs

¹⁷ Local Governments Association - Fragmented Funding Report

¹⁸ Barbera, C., Jones, M., Korac, S., Saliterer, I., & Steccolini, I. (2017). Governmental financial resilience under austerity in Austria, England and Italy: how do local governments cope with financial shocks?. *Public Administration*, 95(3), 670-697.

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