



# Council Services: Resourcing in Two-Tier Areas Debate on 19 October 2017

## Summary

On 19 October 2017, the House is due to debate a motion moved by Lord Greaves (Liberal Democrat) that this House takes note of the “future availability of resources for the provision of District Council services in two-tier areas”.

This short briefing provides an overview of how local government is structured and funded, and includes information on recent funding levels.

## Structure of Local Government

The structure of local government in England varies from area to area. The majority of the country operates a two-tier system of local government, made up of county councils and district councils which split responsibility for council services.<sup>1</sup> County councils cover a wide area, and administer services such as education, waste disposal and social services. A number of district councils then operate in the county council areas, and operate services including: building regulation, burials/cremations, community safety, administration of council tax and business rates, environmental health, electoral administration, licensing, sports facilities, housing, street cleaning and rubbish collection. A detailed list of this splitting of services can be found in the appendix of the House of Commons Library briefing, *Local Government in England: Structures*.<sup>2</sup>

There are also a number of single tier local authorities in England, consisting of unitary authorities, metropolitan districts and London boroughs. With certain exceptions, these generally provide all the services in their area.<sup>3</sup>

In total, there are 353 local authorities in England, structured as follows:

| <b>Two-Tier</b>   |     | <b>Single Tier</b>     |    |
|-------------------|-----|------------------------|----|
| County councils   | 27  | Unitary authorities    | 55 |
| District councils | 201 | London boroughs        | 32 |
|                   |     | Metropolitan districts | 36 |
|                   |     | City of London         | 1  |
|                   |     | Isles of Scilly        | 1  |

An [interactive map](#) showing England’s local government structure is available on the Department for Communities and Local Government (DCLG) website.

## Resourcing Two-Tier Authorities

Local authority funding comes from four main sources: government grants, council tax, business rates and fees/charges (such as parking charges). These can then be considered to fall into two overlapping categories, as described by the Local Government Information Unit: grants from central government (“including the Revenue Support Grant and the Public Health grant”); and locally raised funding (including council tax and retained income under the business rates retention scheme).<sup>4</sup> Specific information on the DCLG’s most recent ‘[Final Local Government Finance Settlement: England, 2017 to 2018](#)’ (9 March 2017) can be found on its website.

In two-tier authorities, certain finances are split between the county and district councils. For example, regarding council tax, the DCLG states:

Only some of the local authorities may collect money directly through council tax. These are called billing authorities. Others receive funds indirectly, either by precepting on a billing authority or by other channels, such as levies. In shire areas, county councils are precepting authorities, as district councils are the billing authorities.<sup>5</sup>

The same applies to business rates, with the billing authorities also having responsibility for applying any exemptions or reliefs.<sup>6</sup> Following the introduction of the business rates retention scheme in April 2013:

Authorities overall keep half of the local business rates revenue as well as the growth on their share. A system of tariffs and top-ups provides a one-off rebalancing of resources at the outset in order to ensure that no authority loses out in its ability to meet local service needs as a result of their business rates tax base. The other half of business rates revenue is used to fund the majority of Revenue Support Grant provided to local authorities.<sup>7</sup>

The allocation of this relief is then split between the district and county councils, as follows:

40 percent of business rate revenues initially go to district councils and 10 percent to county councils. As county councils’ spending commitments are greater than those of district councils, to compensate for this difference, all county councils are top-up authorities; whilst many district councils are tariff authorities. The tariff may be substantial, leading to some such authorities retaining only some 10–20 percent of total revenue once the tariff has been applied.<sup>8</sup>

Commenting on this change, the Institute for Fiscal Studies noted that a number of district councils had gained from the new scheme, whereas county councils were more likely to have lost out under the new arrangements.<sup>9</sup> In October 2015, the Government committed to a system whereby 100 percent of business rates were retained by the end of the parliament. This proposal is currently being piloted in a number of areas and is the subject of government consultation.

## Funding Levels

In 2017/18, the “total revenue expenditure by all local authorities in England is budgeted to be £94.5 billion. This is an increase of 0.4 percent from £94.1 billion budgeted for 2016/17”.<sup>10</sup> Of this, around

£3.1 billion is budgeted under district councils, a reduction of 0.6 percent from the previous year. The budgeted spend by service area for 2016/17 was reported to be:<sup>11</sup>

- Education: 37 percent.
- Adult Social Care: 17 percent.
- Police: 12 percent.
- Children’s Social Care: 9 percent.
- Other services (eg highways, public health, fire and rescue, cultural, environmental and planning): 25 percent.

Further, a breakdown of the anticipated receipts from different funding sources over time can be seen in the following table:

**Table: Financing of revenue expenditure by local authority classification, England 2017–18**

(£ million)

|                                    | Financing components of Revenue Expenditure <sup>(a)</sup> |                                  |             |  |             |                            |             |   |            |  |
|------------------------------------|--|----------------------------------|-------------|--|-------------|----------------------------|-------------|---|------------|--|
|                                    | Centrally distributed income                               |                                  |             | Locally retained income  |             |                            |             | Reserves and other items                                  |            |  |
|                                    | Revenue Expenditure  | Government Grants <sup>(b)</sup> | % of total  | Retained income <sup>(c)</sup> from Business Rate Retention Scheme | % of total  | Council Tax <sup>(d)</sup> | % of total  | Appropriations to (-) & from (+) reserves and other items | % of total |  |
| <b>England</b>                     | <b>94,470</b>  | <b>50,188</b>                    | <b>53.1</b> | <b>14,665</b>  | <b>15.5</b> | <b>27,631</b>              | <b>29.2</b> | <b>1,977</b>  | <b>2.1</b> |  |
| <b>Class of authority</b>          |  |                                  |             |  |             |                            |             |   |            |  |
| Shire Counties                     | 25,979   | 13,641                           | 52.5        | 2,532  | 9.7         | 9,340                      | 36.0        | 467   | 1.8        |  |
| Metropolitan Districts             | 18,342   | 9,790                            | 53.4        | 4,021  | 21.9        | 4,138                      | 22.6        | 392   | 2.1        |  |
| Unitary Authorities <sup>(e)</sup> | 17,143   | 8,899                            | 51.9        | 2,684  | 15.7        | 5,357                      | 31.3        | 202   | 1.2        |  |
| London Boroughs                    | 13,851   | 8,443                            | 61.0        | 2,161  | 15.6        | 3,062                      | 22.1        | 185   | 1.3        |  |
| Police Authorities                 | 8,368  | 5,666                            | 67.7        | 0  | 0.0         | 2,493                      | 29.8        | 208   | 2.5        |  |
| Greater London Authority           | 5,792  | 2,614                            | 45.1        | 2,240  | 38.7        | 805                        | 13.9        | 134   | 2.3        |  |
| Shire Districts                    | 3,066  | 623                              | 20.3        | 667  | 21.8        | 1,657                      | 54.0        | 120   | 3.9        |  |
| Fire Authorities                   | 1,481  | 277                              | 18.7        | 339  | 22.9        | 780                        | 52.7        | 85  | 5.7        |  |
| Other Authorities <sup>(f)</sup>   | 447  | 235                              | 52.6        | 21   | 4.6         | 0                          | 0.0         | 184   | 41.2       |  |

(a) In previous years, ‘Other items’ and use of reserves has not been included.

(b) Central Government Grants includes Local Services Support Grant, Specific Grants inside Aggregate External Finance, Revenue Support Grant and Police Grant.

(c) Retained income from Rate Retention Scheme; expected retained non-domestic rate income after payment of central share, major precepting shares and any tariff, top up, levy or safety net payments.

(d) Council Tax Requirement is the amount local authorities expect to collect from all domestic properties within their boundary, including parish and town councils.

(e) Unitary Authorities includes Isle of Scilly.

(f) Other authorities comprise of Waste Disposal Authorities (WDA), Integrated Transport Authorities (ITA) and National Park Authorities. For WDA and ITA, the core financing of their service expenditure comes from Waste Disposal and Integrated Transport respectively, funded by their constituent authorities, which is already included in revenue expenditure.

(Source: Department for Communities and Local Government, [Local Authority Revenue Expenditure and Financing: 2017–18 Budget, England](#), 29 June 2017, p 11)

The table shows that district councils are expected to receive the majority of their funding from council tax (54 percent) in 2017/18, with only 20.3 percent coming from government grants.

In its October 2016 report on local government funding, the National Audit Office (NAO) highlighted the increased role of local funding for local authorities, stating:

Since 2010–11 the share of local authority revenue from local sources has increased. To a large extent this has been due to reductions in central funding rather than growth in council tax or sales, fees and charges income. However, the Department anticipates significant growth in council tax income from 2016–17 as authorities are now able to add additional precepts.<sup>12</sup>

However, reporting on the 2016/17 local government finance settlement, which covered funding up to 2019/20, the NAO stated:

The settlement as a whole involves a 7.8 percent (2 percent per annum) real-terms cut in spending power (council tax plus government grants including business rates) from 2015–16 to 2019–20. This is an easing in revenue income pressures experienced to date by authorities. Over the period 2010–11 to 2015–16 authorities had seen a real terms reduction in spending power of 23.4 percent or 4.7 percent per annum. However, the easing in spending power reductions is solely the result of anticipated increases in council tax income.<sup>13</sup>

Regarding how the money is being used by local authorities, the NAO reported that around 49.3 percent of authorities' non-schools expenditure (ie money going directly to schools) was budgeted to be spent on adult social care or children's social care in 2016/17.<sup>14</sup> It also reported a real-terms budgeted increase, from 2010/11 to 2015/16, of 5.7 in children's social care, in contrast to decreases of:

- 8.6 percent for adult social care.
- 36.0 percent for cultural services.
- 47.1 percent for housing services (excluding housing revenue account spend).
- 53.1 percent for planning and development.

In an earlier report published in 2014 the NAO suggested that district councils have increased their financial reserves already in recognition of the uncertainty surrounding funding. It also stated: "auditors are relatively confident about the future financial sustainability of district councils, but are increasingly pessimistic about single tier and county councils, particularly metropolitan districts and unitary authorities".<sup>15</sup> In addition, the report highlighted the practice of sharing services with other local authorities to better cope with financial pressures.<sup>16</sup>

In a press release issued on 25 September 2017, the District Councils' Network (DCN) called for the Government to allow district councils to introduce a new 2 percent council tax 'prevention' precept for the purposes of maintaining and investing in "prevention services such as improving housing, providing leisure and recreational facilities, offering debt advice, tackling homelessness, supporting troubled families and improving air quality all of which help reduce demand on social care and health services".<sup>17</sup> The DCN stated that this could raise around £25 million for district councils, and that "for every £1 spent on prevention, district councils say they can make up to £70 worth of savings on health spending in the long term".<sup>18</sup> Backing the request, the Chairman of the DCN, Councillor John Fuller, stated:

It is time the Government recognised the important role district councils play in prevention and early intervention. We know that for everyone £1 spent, district councils can save the NHS up to £70, just by adapting homes to prevent falls, improving home insulation and heating or providing recreational and leisure services. A 2 per cent prevention precept would go some way to reducing

pressures on the social care system, by solving rather than managing problems, and allowing resources to be refocused on tackling problems one family at a time before they occur. Prevention is always better than cure. If we are to reduce pressures on the NHS and stop people from entering the social care system unnecessarily, districts council must be given the resources to invest in prevention.<sup>19</sup>

The DCN has also commissioned a [report on the potential impact district councils could have on public health](#), which was published by the King's Fund in November 2015.<sup>20</sup>

## Key Documents

- Department for Communities and Local Government, '[Local Government Structure and Elections](#)', 11 January 2016; and [Local Authority Revenue Expenditure and Financing: 2017–18 Budget, England](#), 29 June 2017
- National Audit Office, [Overview 2015–16: Local Government](#), October 2016; and [The Impact of Funding Reductions on Local Authorities](#), November 2014, pp 4–10
- Institute for Fiscal Studies, [A Time of Revolution? British Local Government Finance in the 2010s](#), October 2016, pp 1–4; and [The Local Vantage: How Views of Local Government Finance Vary Across Councils](#), September 2017, pp 7–8
- District Councils' Network, '[District Councils Call for Council Tax Raising Powers for New Health Precept](#)', 25 September 2017
- King's Fund, [The District Council Contribution to Public Health: A Time of Challenge and Opportunity](#), 19 November 2015, pp 5–10
- Local Government Association, '[LGA Analysis: Council Tax Rises Will Not Fix Local Government Funding Crisis](#)', 20 February 2017; and '[LGA Responds to Final Local Government Finance Settlement](#)', 20 February 2017

## Further Information

- Local Government Information Unit, '[Local Government Facts and Figures](#)', accessed 9 October 2017
- House of Commons Library, [Business Rates](#), 28 April 2017; and [Reviewing and Reforming Business Rates](#), 28 April 2017
- Department for Communities and Local Government, '[Local Authority Revenue Expenditure and Financing England: 2017 to 2018 Budget Individual Local Authority Data](#)', 29 June 2017
- [Local Government Association website](#) and [District Councils' Network website](#)

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- <sup>1</sup> Department for Communities and Local Government, '[Local Government Structure and Elections](#)', 11 January 2016.
- <sup>2</sup> House of Commons Library, '[Local Government in England: Structures](#)', 15 March 2017.
- <sup>3</sup> Department for Communities and Local Government, '[Local Government Structure and Elections](#)', 11 January 2016.
- <sup>4</sup> Local Government Information Unit, '[Local Government Facts and Figures](#)', accessed 9 October 2017.
- <sup>5</sup> Department for Communities and Local Government, '[Local Government Financial Statistics England: No 27, 2017](#)', July 2017, p 5.
- <sup>6</sup> House of Commons Library, '[Business Rates](#)', 28 April 2017.
- <sup>7</sup> Department for Communities and Local Government, '[Local Government Financial Statistics England: No 27, 2017](#)', July 2017, p 5.
- <sup>8</sup> House of Commons Library, '[Reviewing and Reforming Business Rates](#)', 28 April 2017, p 6.
- <sup>9</sup> Institute for Fiscal Studies, '[A Time of Revolution? British Local Government Finance in the 2010s](#)', October 2016, p 3.
- <sup>10</sup> Department for Communities and Local Government, '[Local Authority Revenue Expenditure and Financing: 2017–18 Budget, England](#)', 29 June 2017, p 1.
- <sup>11</sup> *ibid*, p 5.
- <sup>12</sup> National Audit Office, '[Overview 2015–16: Local Government](#)', October 2016, p 5.
- <sup>13</sup> *ibid*, p 6.
- <sup>14</sup> *ibid*, p 7.
- <sup>15</sup> National Audit Office, '[The Impact of Funding Reductions on Local Authorities](#)', November 2014, p 10.
- <sup>16</sup> *ibid*, p 20.
- <sup>17</sup> District Councils' Network, '[District Councils Call for Council Tax Raising Powers for New Health Precept](#)', 25 September 2017.
- <sup>18</sup> *ibid*.
- <sup>19</sup> *ibid*.
- <sup>20</sup> King's Fund, '[The District Council Contribution to Public Health: A Time of Challenge and Opportunity](#)', 19 November 2015.