



## Local Authority Funding: Overall pressure on local funding continues, but new winners and losers have emerged since last year

### FOLLOW US ON SOCIAL MEDIA

[Marwood Group](#)

[LinkedIn](#)

Local authority (LA) funding in England has changed significantly since the start of the decade. Against the backdrop of wider pressure on public service expenditure, we have seen the Government reduce the level of permanent central financial support to local areas, with policies that look to localise expenditure and temporary funding solutions for specific services.

Implementing these changes has led to a complex LA funding landscape. This means that to fully understand the overall national impact, it is essential to understand the local financial picture. Our analysis unpicks the numbers to identify how many LAs are experiencing pressure, and how this has changed since our analysis last year.

Since local authorities are responsible for the majority of adult social care funding in England, this analysis is highly relevant for many providers of older people and learning disability care services.

### Key highlights

- Over 10% of local authorities are in a stronger financial position in 2017/18 than in 2016/17, but overall the majority remain under pressure
- In 2017/18, factors determining whether a local authority is in a good financial position or not, includes the level of their reserves per capita, the decline in their central funding allocation, and their ability to raise revenue locally

***Over 10% of local authorities are in a stronger financial position in 2017/18 than in 2016/17, but overall the majority remain under pressure***

Last year, our analysis showed that only seven LAs were in a comparatively good financial position. In contrast, there were 27 whose finances were under high pressure.

Rerunning this analysis in 2018, we find that, overall, the number of LAs in a good financial position remains small despite a minor increase. The number of LAs under pressure is stable and there is a minor decrease in the number of LAs under high pressure.

Yet, it is important to understand that whilst this may suggest stability – with LAs finding themselves stuck in the same groupings due to the allocation of local authority funding – it hides movement between the three categories.

In total we found that 124 LAs have remained in the same group as last year, 16 have improved and are 2018's 'winners', whilst 11 LAs have been

downgraded by at least one category. Derbyshire County Council has the misfortune of being the only LA to drop from a good position to being under high financial pressure.

Funding Situation	2017/18	2016/17
Good	9	7
Pressure	117	117
High Pressure	25	27

We find the winners scattered around the country. Bolton, Calderdale, Hackney, Milton Keynes and Tameside all moved away from being under pressure to an improved funding situation. The others moved up from a state of high financial pressure to being under pressure.

Those that have seen the position decline in 2017/18 are primarily concentrated in the West of England, with the majority falling from a position of being under pressure to one of high pressure. However, City of London and Derby City Council were downgraded from good to under pressure. Across England, Derbyshire County Council experienced the sharpest fall. While the LA was in a good financial situation in 2016/17, it appears under high pressure in this year's analysis.

#### The tip of the iceberg?

Early in February, Northamptonshire County Council became the focus of media attention as it became the first LA in two decades to enter a state of effective bankruptcy. This meant imposing financial controls and stopping expenditure on everything apart from its statutory obligations. Our analysis shows the difficulties in Northamptonshire goes deeper than yearly pressures, as they were in a more positive position than many LAs when it came to the reduction in their central funding allocation. However, their financial reserves tell a different story, with just £47 per capita reserved. This compares to an average of £329 per capita across local authorities.

If we look at Derbyshire County Council – the only LA to drop two levels in our analysis – we find their reserves are much closer to the national average, at over £300 per capita. They have also been more shielded from cuts to the central allocation. However, our analysis shows they are in the lowest group of LAs when it comes to their ability to raise additional revenue through the social care precept, and also have a larger proportion of older people compared to many other LAs.

This snapshot of two LAs – located near each other in central England – demonstrates the complexity of factors that underpin the perfect financial storm that many LAs find themselves in. Northamptonshire's financial situation could be the result of declining budgets leading to local financial mismanagement. However, the apparently healthy financial reserves in Derbyshire highlight the importance of considering a wide range of factors when understanding the pressure facing a local authority.

Recognising the pressure LAs are under led the Government to announce additional funding for adult social care. This is only a temporary measure, but it does appear that it has had an impact on local priorities. An annual survey of key LA stakeholders has found that those who think adult social care is their LA's biggest long-term financial pressure has declined from over 50% to 38% in the last two years, whilst children's services and education has replaced adult social care as the most immediate short-term financial pressure (32% compared to 28% of respondents).

***In 2017/18, factors determining whether a local authority is in a good financial position or not, includes the level of their reserves per capita, the decline in their central funding allocation, and their ability to raise revenue locally***

In 2017/18, a small number of LAs, including Barking and Dagenham and Hackney in London and Southend in the South East are in a fairly comfortable situation. However, the majority of LAs are experiencing financial pressure. This pressure appears particularly acute in London, the North West, the South West and the West Midlands.

This pressure is partly the result of the continued decrease in central allocations to LAs. In 2017/18, the overall central funding allocation to all LAs fell by £1.96bn compared to 2016/17. However, this decline in central support is felt very differently locally, with year-on-year reductions ranging from -5.76% to -30.02% depending on the area. The largest cuts were to LAs located in the South East, including Wokingham, Richmond-upon-Thames, and Buckinghamshire.

To counter balance central cuts, LAs were able to increase their Council Tax by up to 5% without the need to hold a local referendum. This was made up of a general 2% increase to fund all local services, and a 3% increase specifically to fund social care services (known as the social care precept). This year, we found that only four LAs chose not to implement the maximum allowable amount for the precept. On average the precept only raised an additional £16.91 per capita.

In recognition of the acute pressure on adult social care, the Government allocated an additional £2bn for adult social care between 2017/18 and 2019/20 in the 2017 Budget. However, its impact has been limited, and funding allocations have not necessarily reached the areas under most pressure.

Our analysis finds that there is no perfect route for an LA to follow to be in a stronger financial position than their peers, and some of the factors are outside of their direct control. For instance, given the importance of central funding allocations, it is unsurprising to find that the nine LAs that we find in a good financial position all experienced more limited cuts in central funding compared to their peers

These LAs can also all point to per capita reserves that are larger than the national average, whilst six of these areas are raising the social precept by at least £17 (higher than the national average of £16.91). The remaining areas that raised it by less than the national average are all located in London, and have population bases where over-65s make up less than 10% of the population.

Despite the importance of central funding, other factors are clearly at work, as the LAs struggling the most are not always those that have suffered the largest cuts in central funding. One common factor is that they tend to have larger populations of people aged over 65. This age group accounts for over 20% in 16 (of 25) areas under the most pressure. Those located in the South have the highest proportions, with Herefordshire and Somerset characterised by over-65s comprising at least 23% of the population, rising to 26% in Torbay.

Higher numbers of older people could weaken an LA's financial position, as it will drive demand for social care services whilst potentially reducing the amount of money that could be raised locally through increasing council tax and claiming the social care precept. In only five of the 25 areas under most pressure does raising the precept lead to generating more revenue than the national average, whilst in seven areas it generates less than £14 per capita. Interestingly, these seven areas are all located in either the Midlands or the North of England, with none located in the South.

## Contact Us

For more information on any of the content in this publication or to learn more about Marwood Group Advisory's capabilities, we encourage you to please contact us.

### **Keyleigh Hartigan**

Managing Director, UK and European Healthcare Advisory

Office: +44 (0)20 3744 1774 x302

[khartigan@marwoodgroup.com](mailto:khartigan@marwoodgroup.com)

**FOLLOW US ON SOCIAL MEDIA**

[LinkedIn](#)

Marwood UK Ltd. is an affiliate of US-based healthcare advisory firm, Marwood Group Advisory, LLC (together, "Marwood").

The information herein is provided for informational purposes only. The information herein is not intended to be, nor should it be relied upon in any way, as investment advice to any individual person, corporation, or other entity. This information should not be considered a recommendation or advice with respect to any particular stocks, bonds, or securities or any particular industry sectors and makes no recommendation whatsoever as to the purchase, sale, or exchange of securities and investments. The information herein is distributed with the understanding that it does not provide accounting, legal or tax advice and the recipient of the information herein should consult appropriate advisors concerning such matters. Reference herein to any specific commercial products, process, or service by trade name, trademark, manufacturer, or otherwise, does not necessarily constitute or imply its endorsement, recommendation, or favoring by Marwood.

All information contained herein is provided "as is" without warranty of any kind. While an attempt is made to present appropriate factual data from a variety of sources, no representation or assurances as to the accuracy of information or data published or provided by third parties used or relied upon contained herein is made. Marwood undertakes no obligation to provide the recipient of the information herein with any additional or supplemental information or any update to or correction of the information contained herein. Marwood makes no representations and disclaims all express, implied and statutory warranties of any kind, including any warranties of accuracy, timeliness, completeness, merchantability and fitness for a particular purpose.

Neither Marwood nor its affiliates, nor their respective employees, officers, directors, managers or partners, shall be liable to any other entity or individual for any loss of profits, revenues, trades, data or for any direct, indirect, special, punitive, consequential or incidental loss or damage of any nature arising from any cause whatsoever, even if Marwood has been advised of the possibility of such damage. Marwood and its affiliates, and their respective employees, officers, directors, managers or partners, shall have no liability in tort, contract or otherwise to any third party. The copyright for any material created by the author is reserved. The information herein is proprietary to Marwood. Any duplication or use of such material is not permitted without Marwood's written consent.

© 2018 Marwood UK Ltd.