Social Policy in a Cold Climate

Research Note Series

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The Distribution of Local Government Finance by Local Authority-Level Deprivation

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Background

This is one of a series of short papers which explain conceptual or methodological approaches underpinning analysis undertaken in CASE's research programme *Social Policy in a Cold Climate* (SPCC). SPCC is designed to examine the effects of the major economic and political changes in the UK since 2007, particularly their impact on the distribution of wealth, poverty, inequality and social mobility. It also examines geographical variations in policy, spending, outputs and outcomes, with a particular focus on London. The analysis includes policies and spending decisions from the last period of the Labour government (2007-2010), including the beginning of the financial crisis, as well as those made by the Coalition government since May 2010. The programme will conclude in 2015, with publication of a final volume. Interim reports will be published in 2013/14, and made available online at http://sticerd.lse.ac.uk/case.

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Introduction

This research note describes the methodology adopted in SPCC to track the relationship between central government spending and deprivation at the local authority level, thus addressing the question, over time and under different policy regimes, do we see more or less money going from central government to local authorities dealing with higher levels of need?

This is of interest to us for three reasons:

- First, we are interested in the extent to which public spending generally is distributed towards poorer or richer people. Spending represents, in some senses, 'realised policy' - the way in which governments' ostensible aims in relation to poverty and inequality are actually operationalized. Other parts of our work analyse the progressiveness or otherwise of spending at a national level – for example through taxes and benefits. Looking at the local authority level enables us to take in a wider range of services: schools, transport, the environment and so on.
- Second, we are specifically interested in understanding neighbourhood renewal policy and its impacts, but accurately tracing spending at the neighbourhood level over time is impossible, due to the myriad of different grants and programmes involved. Looking at grants to local authorities by their level of deprivation gives one pointer to whether local authorities with more people living in deprived neighbourhoods have been better or less well resourced. The work described in this note therefore feeds directly into a paper on neighbourhood renewal under Labour, and will continue to inform analysis of that topic going forward.[1]
- Third, we are interested in the goals that governments' articulate in relation to territorial equity in the distribution of public services and/or social and economic outcomes, and the ways in which these are put into action through state actors at different spatial levels. Are governments concerned about <u>spatial</u> inequalities in outcomes (such as life expectancy), or about spatial differences in the volume or quality of services received? Do they deal with these concerns by central co-ordination or by stimulating local activity, with or without regulatory structures? Analysis of such issues is perhaps of particular importance in the era of 'localism', but has been of long-standing interest too in debates about regional inequalities and the 'North-South divide'.

The analysis conducted to date (and to which this note refers) covers the period of the last Labour government in England 1997-2010. It establishes a record of spending, over time, under Labour and a baseline for analysis of changes under the Coalition. It thus reflects the local government funding system as it was prior to the major changes initiated by the Coalition government and taking effect from 2013/14. Further analyses will cover Scotland, Wales and Northern Ireland and change since the election of the UK Coalition government in 2010.

Central government allocations to local authorities

Over the period in question, approximately two-thirds of income to local authorities came directly from allocations from central government.[2] There were numerous elements to these allocations. The core components were together known as Aggregate External Finance (AEF). AEF was made-up of four main elements:

- Revenue Support Grant (RSG)
- Re-distributed non-domestic rates (NNDR)

[1] Lupton, R., Fenton, A., Fitzgerald, A., (2013) *Low-demand Housing and Unpopular Neighbourhoods Under Labour.*
[2] DCLG, Local Government Financial Statistics England No.22 2012, p32.

- Police Grant

(these three were known and distributed collectively, since 2003-04, as Formula Grant)

- Special and Specific Grants (SSG) within AEF. These comprised a whole range of grants associated with particular projects and programmes, for example Sure Start. The particular grants varied over time due to shifts in the particular initiatives any government was pursuing in any year.

In addition to this principal funding stream (AEF), there were a number of additional streams through which local authorities received funding from central government. One was Special and Specific Grants (SSG) outside AEF. Like Special and Specific Grants inside AEF it included various special grants, for example, associated with crime reduction programmes or the New Deal for Communities funding. However, the majority of this stream comprised allocations to cover mandatory payments administered by local authorities on behalf of central government: Council Tax Benefits and Housing Benefits being the main ones.

Finally, beyond Special and Specific Grants outside AEF, there were a few smaller funding streams that also sat outside AEF. These included an 'other' category and the Area Based Grant (ABG).

The total allocations to local government through these funding streams (AEF and the various Special and Specific and other grants outside AEF), have been in the region of £70bn per year in recent years.[3] Allocations are detailed in Local Government Budgets and Local Government Finance Settlements and are, in retrospect recorded in 'outturn' figures in centrally available accounting data.[4]

For the purposes of this analysis, we are interested in the amount of money allocated to local government by central government for the **provision of services**. We therefore adopt the following formula:

Money allocated to local government by central government for service provision =
(Formula Grant)+ (SSG inside AEF) + (SSG outside AEF) + (ABG and Other) –
(mandatory SSG)

This definition therefore **includes** some grants in addition to AEF but it **excludes** money that comes to local government purely for payments of nationally-determined benefits.

Other permutations are clearly possible. All SSG outside AEF could be included, but this would make deprived local authorities with high housing costs seem particularly well-funded when they are being allocated no more money for actual service provision. Alternatively all SSG outside AEF could be excluded, but this would obscure the effect of programmes such as New Deal for

[3] Ibid., p57.
[4] Department for Communities and Local Government and The Chartered Institute for Public Finance Accountants are the main sources for these outturn data.

Communities which are included in that category. ABG and other grants could also be excluded with the same consequence.
For our analysis, the data on the value of these various funding streams (including a breakdown of grants within and outside AEF for all relevant years) were obtained directly from the DCLG statistics team, principally because outturn data were not publicly available in electronic form for earlier years. These data are not generally in the public domain and we are not able to make them available to other potential users. However, for users wishing to replicate or extend the analysis for shorter time series, many of the data, for later years in particular, are available from public sources.[5] To control for the effect of inflation, we converted all the data into real terms (2008/9 prices) using HMT's GDP deflator (published June 2012).

Given our central interest in neighbourhood renewal, we included in the analysis only those local authorities with responsibilities for local services (eg refuse collection, street lighting, leisure, community and youth services, housing and planning) i.e. 'lower tier' authorities (district and borough councils) and unitary authorities. County Councils were excluded from the analysis. We conducted separate analyses for lower tier and unitary authorities, since unitaries also have responsibility for other services, including the two largest spending areas for local authorities – education and social services.

Matching to Population and Deprivation data

We matched the real terms financial data series to local authority population and deprivation data in order to provide per capita funding estimates for local authorities and to analyse these by level of deprivation.

Population estimates were the ONS mid-year estimates for years 2000/01-2009/10. For the financial year 2000/01, mid-year estimates for the year 2000 were used, and so on. It is worth noting that for some authorities, particularly in London, mid-year estimates based on the 2011 Census vary considerably from those rolled forward from the 2001 Census (and used in this analysis). In other words, some authorities will have had to stretch funding further than was suggested by population estimates at the time, while others will have had fewer people to provide for than was estimated. The effect of this on per capita spending figures will be calculable when revised population estimates for the 2000s are released by ONS (in 2013 or 2014).

Our measure of deprivation was the local authority average score from the Indices of Multiple Deprivation (IMD). Four such indices have been produced during the 2000s, in 2000, 2004, 2007

[5] There are two main central sources for data on local authority finances, firstly, the Department for Communities and Local Government (DCLG) and secondly, the Chartered Institute for Public Finance Accountants (CIPFA). Both supply Revenue Account data detailing the various revenue funding streams inside and outside AEF. The DCLG data are readily available through the statistics pages for the DCLG website https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-authority-revenue-expenditure-and-financing. The CIPFA data are available, in a somewhat different format, through subscription.

and 2010. However, here is a time lag, of a few years, between the publication of an IMD and the data on which it is based. Thus to create the best match between measured deprivation and local authority funding, we took four data points for the financial data, the years 1998-99, 2001-2, 2005-6 and 2008-9, these being the years in which the underlying data for the relevant IMDs were collected - see Table 1.

Table 1: Pairings of IMD year with financial year

IMD – title/publication year	Year to which data refers	Corresponding Finance data year
2010	2008-09	2008-09
2007	2005-06	2005-06
2004	2001-02	2001-02
2000	1998-99	1998-99

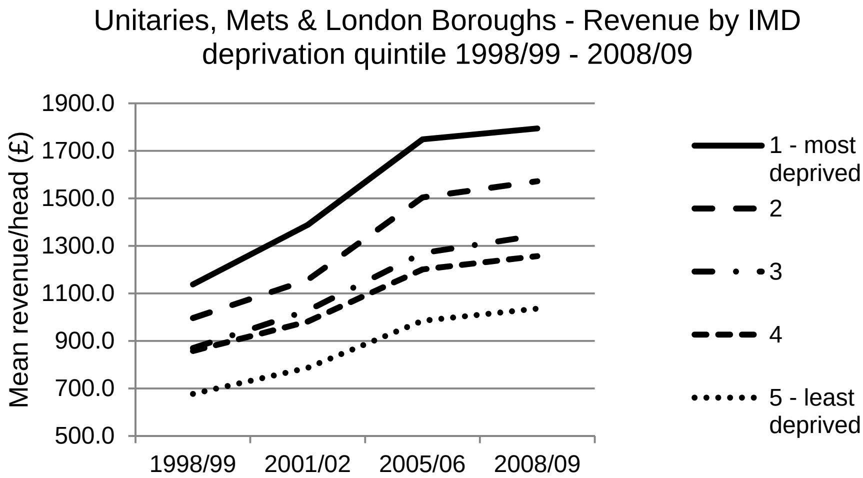
IMD data were matched with Local Authority level finance data for each of these four years. Local authority boundary changes necessitated the calculation of new IMD scores for some authorities in 2008/9, and this was done by taking an average of the SOA-level scores for the SOAs making up the new authority.

For each of the two groups of local authorities (lower tier and unitaries) we calculated quintile groups based on the IMD deprivation measure in each year. We calculated the mean per capita funding within each quintile group. Thus the analysis shows the difference between the mean per capita funding, in real terms, for the most deprived fifth of local authorities, compared with the next most deprived fifth and so on.

Overview of Findings 1997-2010

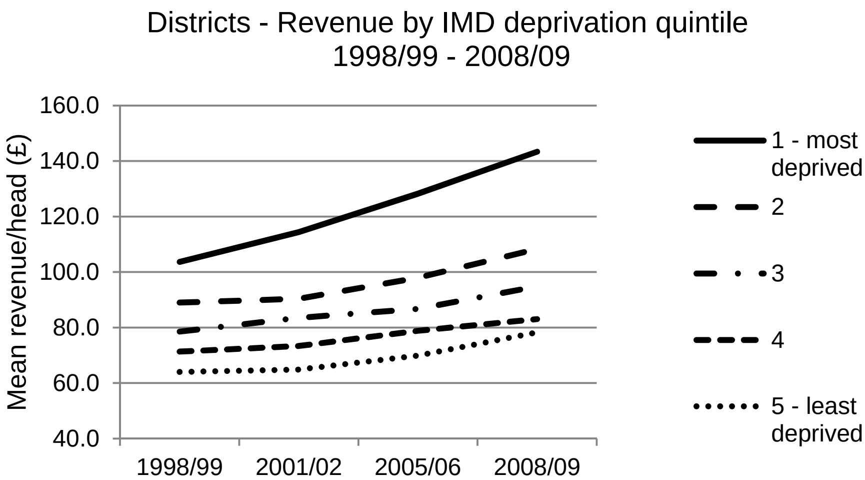
Overall findings are shown in Figures 1 and 2. All groups of authorities experienced an increase in funding over the period, and funding became more redistributive towards poor authorities. For unitary authorities, most of this increase came between 2001/2 and 2005/6. The top two quintile groups (most deprived) became relatively better funded compared with the bottom three groups. For districts (lower tier authorities), the most deprived fifth of authorities became relatively better funded than the remaining groups and this trend continued after 2005/6.

Figure 1: Unitaries, Mets and London Boroughs - revenue from grants (per head) by deprivation quintile[6]



Sources: DCLG: Revenue Outturn; data as supplied. ONS: Indices of Deprivation. ONS: Mid Year Population Estimates for relevant years.

Figure 2: Districts - revenue from grants (per head) by deprivation quintile



Sources: DCLG: Revenue Outturn; data as supplied. ONS: Indices of Deprivation. ONS: Mid Year Population Estimates for relevant years.

[6] County Councils are not included in this analysis due to the different ways in which their finances are allocated.