Insights into Birmingham City Council's Spending Power, Revenue Funding and Spending between 2010-11 and 2019-2020

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Executive Summary

Sources of funding for local authorities have changed substantially between 2010 and 2019, from being very dependent on central government grants, with council tax only representing a small proportion of funding, to an opposite situation. Local Authorities now rely heavily on the wealth of their people and businesses to provide services. In 2019/20 council tax represented 50% of funding received by local authorities, retained business rates provided 27% of their funding and government grants only accounted for 23% of their funding (Institute for Government, 2022). There is now an increased burden on local people and businesses to fund services and redistribution of funding nationally has reduced. This means Local Authorities with fewer people working and fewer businesses have less income to spend on services, widening the potential for inequality.

Across England, there has been a £15 billion reduction in funding from central government between 2010 and 2020 due to a decade of austerity. Research by the LGA (2020b) has emphasised how over recent years councils have faced a proliferation of small grants. These grants are often very specific, and short-term in nature, limiting what councils can deliver. As a result, grants for some services cannot be guaranteed for consecutive years. Challenges have occurred where reductions in grant funding awarded have meant income from central government grants have been insufficient to fund services to their full capacity. Long term structural issues are therefore difficult to tackle within this short-term policy approach. Local Authorities face significant inequality, skills, employment and regeneration issues which take significant time to change are disadvantaged by this system.

Grant allocations over the last decade have also changed into a more competitive model, whereby councils must bid for funding. Examples of competitive funding pots include the Community Renewal Fund, that specifically funds community projects. Between 2015/16 and 2018/19 competitive funding made up 32% of funding available for councils (LGA, 2020b). Competitive approaches distributing money in this competitive way, means that **significant spend and time is wasted on resource on preparing the bids, which could be spent on delivery**. There is also significant duplication and overlap in funding and pots are too small to tackle the issues faced.

This approach also makes Local Authorities compete against each other. **What is needed is collaboration, particularly in complex urban areas** like the West Midlands, which should be working together across borders. But competitive processes like the Levelling Up Fund divide them as they are competing for the same pot of money. Many interventions need to operate across administrative boundaries, such as skills, employment sites, transport, tourism and leisure. Competition can lead to a disjointed or piecemeal offer to people and businesses, as it relies on multiple bids for different funds to be completely successful.

Broadly equal reductions in core grant funding were introduced across local authorities between 2011/12 and 2012/13. The Government withdrew significant amounts of funding from specific grants that were allocated to local authorities based on levels of need. Therefore *"those local authorities that rely more heavily on Government funding as a proportion of their budget were required to deliver a greater proportion of savings, in effect giving* ***those areas in greatest need the greatest level of cuts to make***" (Birmingham City Council, 2019a, p.9). The switch to relying on business rates also raises several challenges relating to current restructuring of businesses towards online models and reduced physical footprints. In particular, **given shifts in retail and online businesses,** the **sustainability of business rates as a reliable source of income for local government** has become a concern. Consumer shopping habits are changing with an increasing number of people shopping online rather than going in store. This has led to many retailers reducing their number of premises, to serve a larger market online. Business rates online apply to the premises of the business. If businesses are reducing their premises to serve online consumers, this will reduce income from business rates.

Local authorities are limited in their ability to increase the level of council tax above 2% per annum without holding a referendum. This therefore becomes "*an effective block*" on councils being able to raise council tax since the low turnout in recent local council elections suggests that councils may struggle to achieve a high turnout in any such referendum. They also cannot change the effective tax based on house prices as this is fixed, so investment in places and regeneration does not change the income to the council.

The changes to funding mechanisms, highlighted in this report, could lead to changing priorities for councils to generate increased income. For instance, prioritising increased large scale dense new house building, rather than regeneration, to raise council tax income and increased activity to attract new businesses, including competing with neighbouring areas to pull in businesses, to generate greater business rates income.

Key Findings:

- Overall, the **spending power of Birmingham City Council decreased by 36.3% between** 2010-2011 **and 2019/20 in real terms in 2019-20 prices.** Per capita, this represents a 40.8% decline in spending power.
- **Government funded spending power decreased** by 53% over this period.
- The **spending power generated from council tax has increased** since 2010-11 by 15%. This shows how council tax has been used to mitigate the fall in spending power from government grants.
- The overall spending power of Birmingham City Council in real terms is comparatively lower than that of metropolitan districts. The spending power of Birmingham City Council has decreased by 36.3% since 2010-11, whereas for metropolitan districts it fell by 32.2%
- **Total revenue fell from £1.5 million to £1.27 million between 2010/11 and 2019/20**. This represents a 17% fall in income. Income was lowest in 2016/17 at £1,129,807,056. **Due to ten years of austerity, by 2019/20 the Council has had to implement savings of £736 million**, including grant reductions.
- When viewing these figures, what also must be considered is how despite this decline in total revenue **since 2010-2011, Birmingham's population has increased by 7.6%**
- **Total gross expenditure by Birmingham City Council in 2019/20 was £3,109 million**. This represents a near 12% decrease in expenditure in comparison to the 2010/11 expenditure of £3,548 million. In 2019 real terms prices, the 2010 expenditure would equate to £4,277 million, **equating to roughly a 27.3% decrease in expenditure.**
- Between 2010/11 and 2019/20, the **largest percentage decrease in spending was on planning and development** (-84.8% over the period). Non-school education spending also experienced a 56.6% decrease. **Environmental and regulatory services benefitted from the largest percentage increase in spending over this period with a 12.1% increase**.
- **Service spending** by Birmingham City Council **has decreased from £1.4 billion in 2010-11 to £1 billion in 2019-20**. This represents a **26% decrease.**
- Similar to trends for Birmingham City Council's income, total spending has also decreased. Spending on **all services has dropped by 26.4% since 2010-2011**. The **biggest drop in overall spending was in non-social care** where spending dropped by 41.7% from 2010-2011 to 2019-2020.

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Introduction

Aim of Report and Methodology

The purpose of this report is to examine changes in Birmingham City Council's income and expenditure over the decade between the 2010/11 and 2019/20 budgets. The report reviews and evaluates budgets and financial plans between 2010/11 and 2019/20, alongside evidence and analysis from supporting research by the National Audit Office (NAO). It focuses on trends relating to the revenue funding for, and expenditure on, services that local authorities, such as Birmingham City Council, have to provide. This includes education services; children's safeguarding and social care; adult social care; waste collection; planning and housing services; road maintenance; and library services (Goddard, 2019, p.1).

The report is structured as follows. First, it analyses trends in Birmingham City's Council income over this period. Secondly, it examines changes in the Council's expenditure. The report seeks to understand some of the reasons why the Council's income and expenditure have changed over this period as well as providing insights into the budgetary challenges and pressures that the Council has had to battle. The report concludes by summarising the key findings as well as identifying gaps in data availability and key policy challenges.

What are local authorities responsible for?

According to the Institute for Government (2022), "*Local authorities in England deliver social care for children and adults, 'neighbourhood services' such as libraries and waste collection, and some aspects of transport, housing, and education*". Services which local authorities in England have a statutory (legal) duty to provide include "*education services; children's safeguarding and social care; adult social care; waste collection; planning and housing services; road maintenance; and library services"* (Goddard, 2019). Discretionary services are those that councils have the powers but not the same duty to provide as statutory services. These include planning services and the use and maintenance of leisure centres (New Local, 2021).

What are the principal sources of revenue funding for local authorities?

The three main sources of revenue funding[1] for local authorities, such as Birmingham City Council, are government grants, business rates and council tax.

1. **Government grants** are funding that local authorities receive from central government. There are two forms of central government grants: **core funding**, which councils spend directly on the services for which they are responsible, and **ring fenced funding** such as the Housing Resource Account, funding for schools and housing benefit payments, which simply pass through councils' accounts and onto the beneficiary (New Local, 2021)[2]. This distinction is important, because when figures are presented and analysed below, what must be considered is that the total amount of grants that councils received from government is greater than the amount available to councils to spend.

2. **Business rates** are a tax that councils place on business premises. As the Local Government Association (LGA) explains, *"currently local government, collectively retains half of the income from business rates, the other half*

[1] Revenue refers to day-to-day operational spending including administrative costs for Council directorates and programme spending. By contrast, capital expenditure relates to funding on fixed assets including buildings.

[2] Some core funding is also ring-fenced for specific activity but as this funding is for council-run services, it goes into each council's 'general fund'.

is paid by councils to central government, which uses the income to fund grants to local authorities" (LGA, no date given). Key aspects of business rates include that:

a) As business rates are based on business premises and their valuations, this generally means that **online retailers pay much lower business rates than their brick-and-mortar counterparts**. Whilst online retailers accounted for 20% of total retail sales, online retailers only paid 6% of total business rates, comparative to bricks-and-mortar stores which accounted for 80% of retail sales and paid 96% of all business rates (Centre for Retail Research, 2018.).

b) The **infrequency of valuations for business rates means rates are often paid on valuations that can be up to seven years out of date** . This can make them often out of step with the economic climate at the time. For instance, the pandemic had a significant effect on pushing down rents in the retail sector, however the last property valuation was in 2017 (which were based on rateable values from 2015) (Enenkel *et.al*, 2020). The next revalution, which adjusts the rateable value of business properties to reflect changes in the property market, will come into effect April 2023, based on rateable values from April 2021 (Gov.UK, n.d.). However, whilst the valuations in 2021 may better reflect the current property market, business rates are linked to CPI inflation and even though rents fell after the pandemic, business rates will likely rise, given CPI inflation is currently in double figures.

3. **Council tax** is a tax on domestic properties, paid by the occupiers. Domestic properties are categorised by their 1991 value into eight bands. Unlike for business rates, all council tax revenue that is collected is fully retained by the local council (New Local, 2021). Nonetheless, local authorities are subject to a number of controls on council tax set by local government. These include that:

a) Councils have no flexibility in how they apply council tax. Despite house prices having increased overall and the difference between the cheapest and the most expensive residences having widened since council tax bands were set in 1991, councils do not have the power to respond to these changes by increasing the council tax rate on high value properties or reducing the tax rate on the lowest value homes. Consequently, "council tax is often referred to as 'regressive', because increasingly the wealthiest pay proportionately *less*, while the least wealthy pay proportionately *more*" (New Local, 2021).

b) Councils are unable to increase council tax beyond a set threshold. Due to changes introduced as part of the 2011 Localism Act, since 2012/13 local authorities have been unable to raise council tax rates by more than 2% annually unless they hold a referendum (Institute for Government, 2022, New Local, 2021). This can lead to inequalities being further entrenched within a given area, due to council tax rates not being updated to reflect the current affluence of an area. Additionaly, inflation usually rises at a slightly faster rate than 2%, therefore in real terms the value of council tax decreases year-on-year.

Trends in local government revenue funding

Sources of funding for local authorities have changed substantially over the last thirty years from being very dependent on central government grants, with council tax only representing a small proportion of funding, to an opposite situation. In 2019/20 council tax represented 50% of funding received by local authorities, retained business rates provided 27% of their funding and government grants only accounted for 23% of their funding (Institute for Government, 2022).

In particular, the nature of grants from the government has changed over the past decade. One of the government's objectives has been to reduce the level of the main grant provided (e.g the Revenue Support Grant) to force revenue saving. Consequently, the importance of council tax as a local authority revenue source has increased. As a result of reductions in government grants, local authorities raised 25% more council tax, in real terms[3], in 2019/20 compared to 2009/10 (IFG, 2022).

Across England there has been a **£15 billion reduction in funding from central government** between 2010 and 2020 due to a decade of austerity (LGA, 2020a). Research by the LGA (2020b) has emphasised how over recent years councils have faced a proliferation of small grants. These grants are often very specific, and short-term in nature, limiting what councils can deliver. As a result, grants for some services cannot be guaranteed for every consecutive year. Challenges have occurred where reductions in grant funding awarded have meant income from central government grants have been insufficient to fund services to their full capacity.

Grant allocation over the last decade has also changed into a **more competitive model,** whereby councils must bid for funding. Examples of competitive funding pots include the Community Renewal Fund, that specifically funds community projects. Between 2015/16 and 2018/19 competitive funding made up 32% of funding available for councils (LGA, 2020b). Non-core grant funding makes up a disproportional amount of grant funding. The LGA found that 86% of grants issued by government between 2015/16 and 2018/19 fall into the other category rather than core funding (LGA, 2020b).

The **proportion of business rates retained by local government has increased** over the last decade. Before 2013/14, business rate revenues were collected locally and transferred to the Treasury, which then redistributed the money raised to local authorities through central government grant funding (IFG, 2022). From 2013 onwards, local councils have been able to keep 50% of the business rates raised locally, in order to compensate for the reduction in funding from government grants (IFG, 2022). Birmingham City Council has been part of a pilot keeping 100% of business rates since 2017/18, in exchange they have forgone the Government Revenue Support Grant (Birmingham City Council, 2017, p.5). The Government had intended to introduce 75% Business Rates retention nationally from 2021/22. This was alongside redistributing local Business Rates growth across all local authorities based on need. This was expected to result in a loss to the Council of around £17.5m (Birmingham City Council, 2020a, p16). However, the Government announced in 2020 that it would not proceed with 75% Business Rates retention in 2021/22 nor would it reset accumulated Business Rates growth in 2021/22. The Council's planning assumption is for the Business Rates Retention Pilot to continue (Birmingham City Council, 2020a, p.16). In the Local Government Finance Settlement 2020 the Government stated that final decisions will be taken in the context of the 2021 Spending Review.

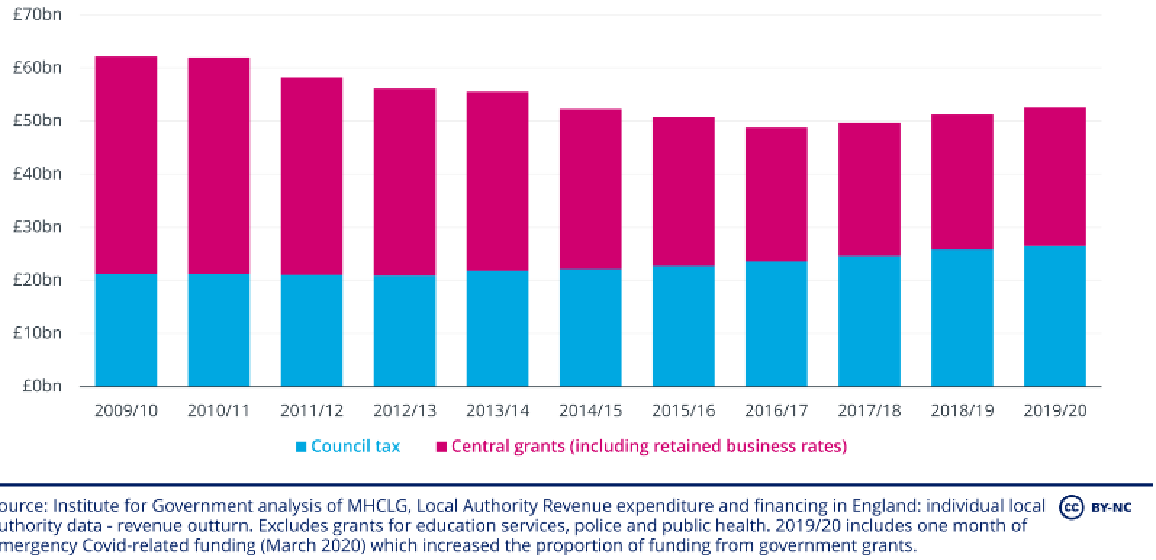
In April 2023, the business rates baseline - the mechanism which determines how much money local authorities keep from business rates will be reset for the first time since 2013 (IFG, 2022). This forms part of the Fair Funding Review which is designed to "*deliver both a new set of formulas for estimating the relative spending needs of different local authorities, and a more rational overall funding system that better takes into account spending needs and revenue-raising capacity*" (Phillips, 2022).

As shown in Figure 1, analysis by the Institute for Government (2022) indicates that local authority 'spending power'[4] has fallen by 16% since 2010.

[3] Changes in revenue in real terms refers to amount of money gained from revenue with inflation taken into account (Full Fact, 2018).

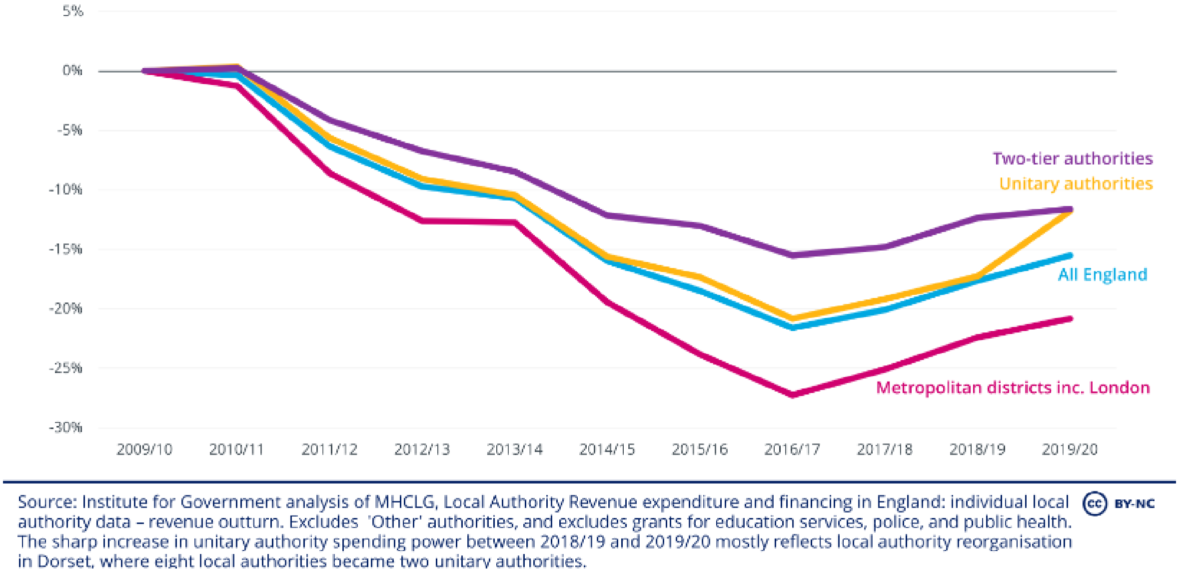
[4] 'Spending power' refers to the amount of money that local authorities have to spend from government grants, council tax, and business rates. Spending power is the government's preferred measure of local authority spending income (NAO, 2021).

Figure 1: Local Authority revenues by source 2009/10 to 2019/20 (2019/20) prices



Source: Institute for Government, (2022).

Figure 2: Change in Local Authority Spending Power 2009/10 to 2019/20, by type of local authority



Source: Institute for Government, (2022).

Metropolitan districts[5] such as Birmingham (as seen in Figure 2 above) have suffered the biggest reductions in spending power, compared to other types of local authority such as two-tier authorities and unitary authorities. This occurred because of differences in how central government funding cuts impacted on different types of local authority. The cuts had a particularly negative impact on metropolitan districts since *"these grants made up a larger share of income for local authorities in areas of higher deprivation (many of which are metropolitan districts or London authorities)"* (IFG, 2021).

[5] Metropolitan districts are a type of local government in England. They are largely local authorities located in cities (IFG, 2021).

Methodology

Data analysed in this report is principally drawn from the 2021 National Audit Office (NAO) Financial Sustainability of Local Authorities Visualisation between 2010-11 to 2019-20 and Birmingham City Council's Budgets for 2010/2011 and 2019-2020.

The NAO visualisation provides information relating to changes in spending power, income and spending for Birmingham City Council between 2010-11 and 2019-20. Change in spending power and spending are given both in percentage terms and per capita. All the NAO data is presented in real terms in 2019-20 prices. Presenting costs in real terms takes into account the effects of inflation. This is important in illustrating the actual funding available to and expenditure by Birmingham City Council over the decade studied.

The Portfolios and Directorates used to break down income and expenditure in the Council changed between 2010/11 and 2019/20, so direct comparison is not always possible. For instance, Birmingham City Council did not have an Inclusive Growth Directorate in 2010/2011 and so data is not provided for Inclusive Growth in the 2010/11 budget. Instead, aspects of what is now classified as the Inclusive Growth Directorate would have been part of other portfolios, such as the Transport and Regeneration Portfolio, the Adults and Communities Portfolio and the Housing Portfolio.

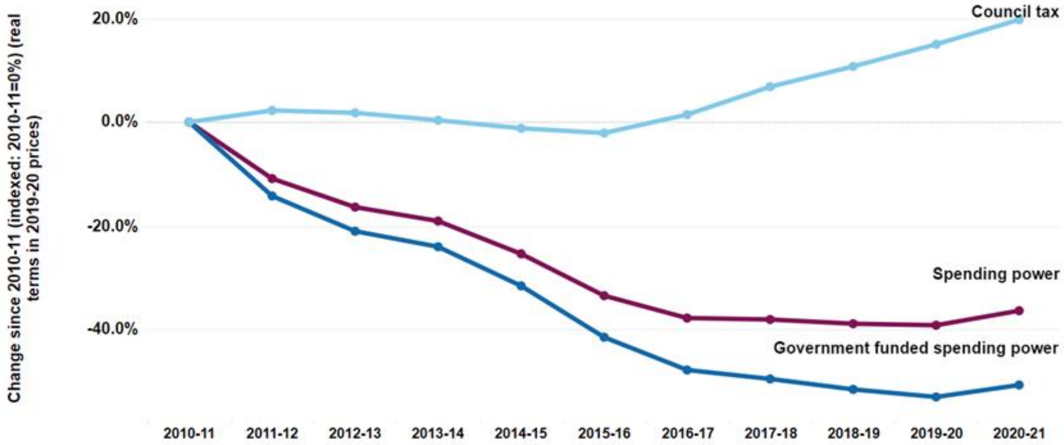
Data relating to revenue income and expenditure from both Birmingham City Council's budgets and the NAO is included where it can be directly linked, otherwise additional information that cannot be linked between all three reports is excluded.

In addition, this report draws on two qualitative interviews conducted with local authority representatives with knowledge of Birmingham City Council's funding and expenditure over the last decade. Analysis of the interviews enables deeper understanding of the reasons behind key changes in Birmingham City Council's income and expenditure during this period.

Insights into funding trends for Birmingham City Council 2019/20: spending power, revenue funding and spending

Spending Power

Figure 3: Change in Spending Power 2010/11 to 2019/20



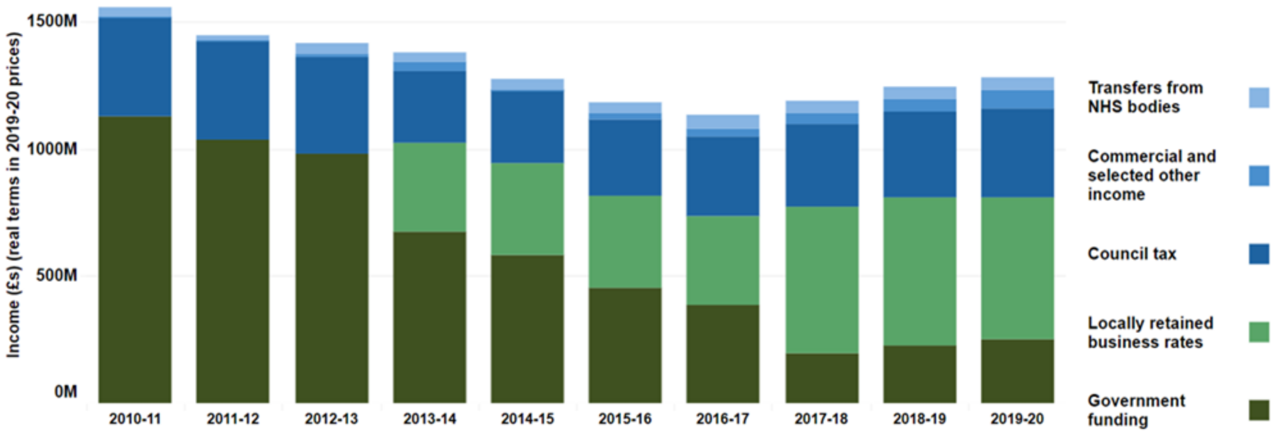
Source: NAO, July 2022. Data for government funded spending power in this chart includes an assumed amount for 50% retained business rates.

- According to Figure 3, overall, the **spending power of Birmingham City Council decreased by 36.3% in real terms** 2019/20 prices **between 2010-2011 and 2019/20.**
- **Government funded spending power decreased** by 53% over this period.
- The **spending power generated from council tax has increased** since 2010-11 by 15% (NAO, 2021). This shows how council tax has been used to mitigate the fall in spending power from government grants.

The overall spending power of Birmingham City Council in real terms is comparatively lower than that of metropolitan districts on average. The spending power of Birmingham City Council has decreased by 36.3% since 2010-11, whereas for metropolitan districts it fell by 32.2% (NAO, 2021). As noted in the Introduction, metropolitan districts[6] such as Birmingham have suffered bigger reductions in spending power, compared to other types of local authority such as two-tier authorities and unitary authorities (IFG, 2022).

Trends in Revenue Funding between 2010/11 and 2019/20 by source

Figure 4: Main Revenue Funding Sources for Birmingham City Council 2010/11 to 2019/20



Source: NAO July 2021.

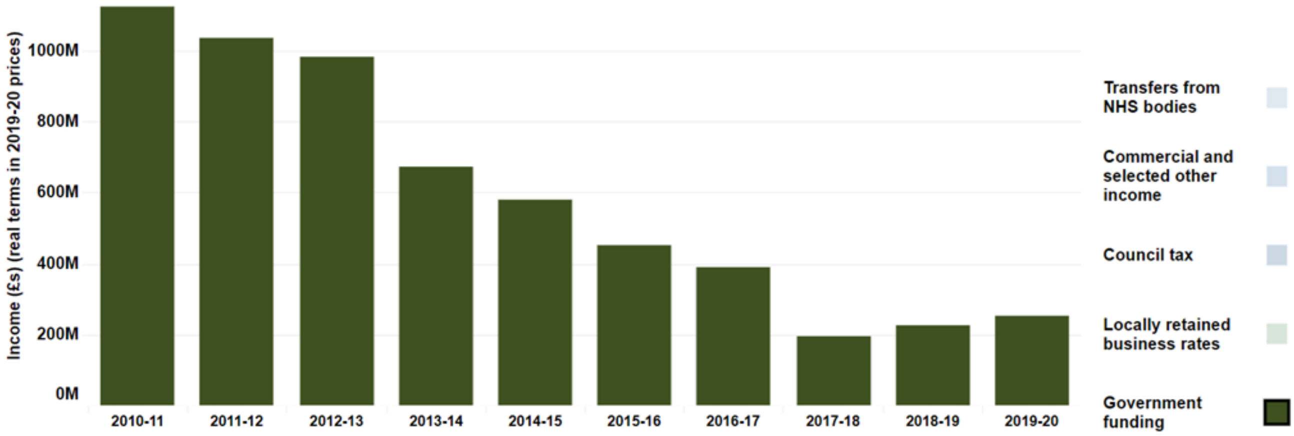
[6] Metropolitan districts are a type of local government in England. They are largely local authorities in cities (IFG, 2021).

Total revenue funding fell from £1.5 billion to £1.27 billion between 2010/11 and 2019/20. This represents a 17.8% fall in income. Income was lowest in 2016/17 at £1,129,807,056 (NAO, 2021). **Due to ten years of austerity, by 2019/20 the Council has had to implement savings of £736m** including grant reductions (Birmingham City Council, 2019.a, p.9). When viewing these figures, what also must be considered is how despite this decline in total revenue, **since 2010-2011 Birmingham's population has increased by 7.5%** (NAO, 2021). Therefore, spending power per capita has fallen by 40.8%, over this period.

Over time government funding has declined and locally retained business rates have become a more important source of revenue for the City Council. As explained in the Introduction, prior to 2013/14, business rates were collected locally but then transferred to central government, before being reallocated to local government.

Government Grants

Figure 5: Income from Government Grants to Birmingham City Council 2010/11 to 2019/10[7]



Source: NAO, July 2021.

Birmingham's City Council's income from government grants has decreased by 77.8% over a ten-year period since 2010-2011. Income from government funding decreased from £1,125,212,152 in 2010-11 to £250,017,000 in 2019-2020 (NAO, 2021). The Council experienced a particularly steep fall in income from government grants between 2012/13 and 2013/14. This coincides with the introduction of austerity measures in the English local government context.

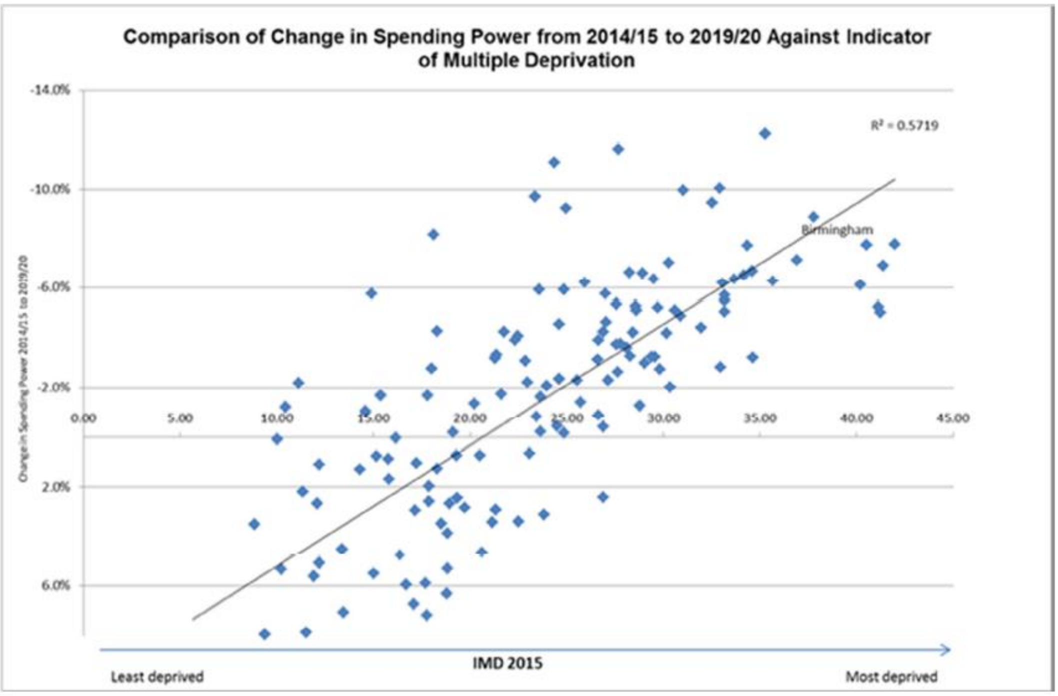
From 2014/15 the government changed its method of reducing grant funding to individual local authorities in an attempt to ensure equal reductions (Birmingham City Council, 2019a, p.9). Consequently, broadly equal reductions in core grant funding were introduced across local authorities between 2011/12 and 2012/13. The Government withdrew significant amounts of funding from specific grants that were allocated to local authorities based on levels of need. This includes the Working Neighbourhood Grant, and the Early Intervention Grant (Birmingham City Council, 2011, p.9). Birmingham City Council's Budget Book (2019a) argues that such a change disproportionately affected Birmingham City Council since *"those local authorities that rely more heavily on Government funding as a proportion of their budget were required to deliver a greater proportion of savings, in effect giving those areas in greatest need the greatest level of cuts to make*."

Birmingham City Council lobbied the government to develop a fairer approach to allocating cuts (2019a). The Government did adjust its method and adopted the new approach put forward by the Council. This change benefitted the Council by over £30m in 2016/17 and over £50m in 2017/18. However, the Government did not adjust this retrospectively to account for historic disproportional cuts in 2014/15 and 2015/16. Birmingham City Council estimated that the loss to the Council reduced annual resources by around £100 million (Birmingham City Council, 2019a). Figure 6 below from Birmingham City Council's budget report (2019), demonstrates that despite cuts being

[7] Government funding includes redistributed non-domestic rates, revenue support grant, area-based grant, local service support grant, and special and specific grants inside aggregate external finance (excluding schools grants).

broadly proportionate across local government since 2016/17, Birmingham (and other high deprivation authorities) have still suffered proportionately greater cuts between 2014/15 and 2019/20 than those with lower levels of deprivation.

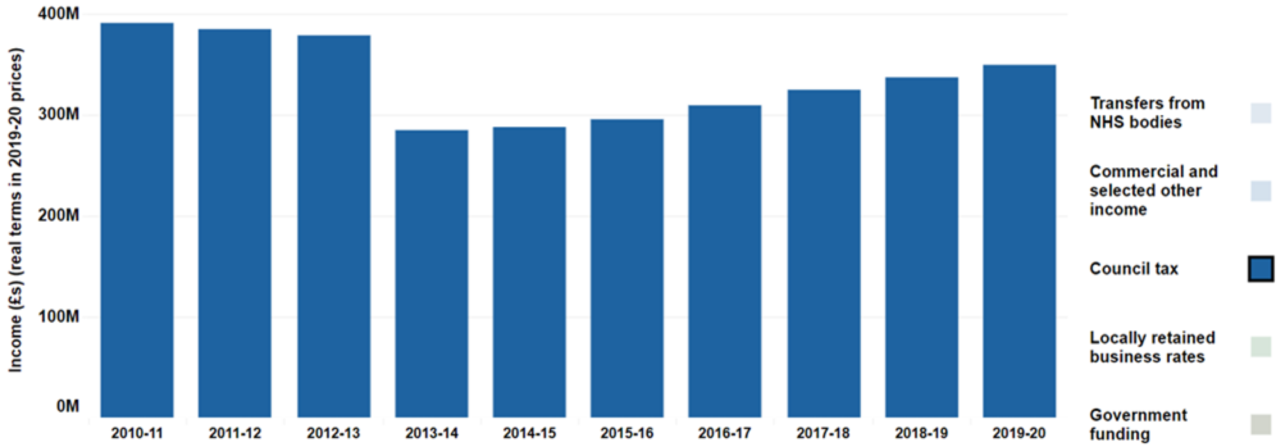
Figure 6: Comparison of Change in Spending Power 2014/15 to 2019/20 against Indicator of Multiple Deprivation



Source: Birmingham City Council, 2019a, p.10.

Council Tax

Figure 7: Income from Council Tax in Birmingham City Council 2010/11 to 2019/20



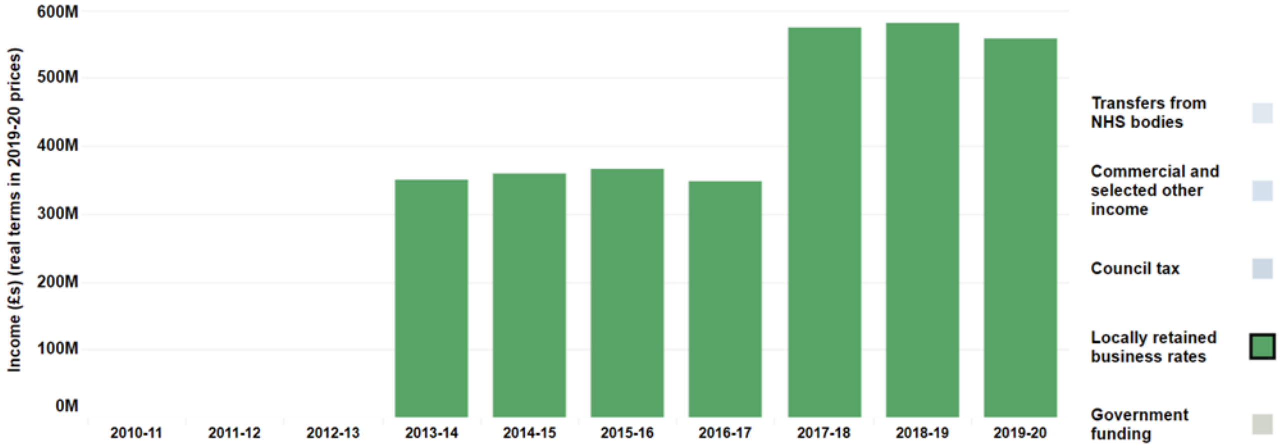
Source: NAO, July 2021.

As a result of the decline in funding from central government, **Birmingham City Council has had to become more reliant on council tax** and business rates for funding. Between 2010/11 and 2013/14, funding from council tax fell by 27% from £391,171,190 to £284,364,000 (NAO, 2021). However, **since 2013/14 income from council tax has steadily increased by 23%** to £349,276,000 in 2019/20. Overall, between 2010/11 and 2019/20, income from council tax has decreased 10.7%.

One might expect that council tax income would have increased over this period given that there is a rising population within the Birmingham area. However, between 2010/11 and 2013/2014 there was a freeze on council taxes across the UK and the Government funded the council tax freeze for these years (MHCLG, 2012). When the government removed the council tax freeze, councils had missed three financial years of rising council tax and were now no longer receiving the top up from government. In real terms, this made them worse off in 2014/2015 than in 2010/11 compared to than would have otherwise been the case if council tax had increased. In addition, between 2010/11 and 2019/20 inflation rose by around 2.2% per year, meaning that inflation rose at a faster rate than council tax. Consequently, over this period the value of the income generated through this stream fell in real terms (Birmingham City Council, 2013).

Business Rates

Figure 8: Income from Locally Retained Business Rates in Birmingham City Council 2010/11 to 2019/20



Source: NAO, 2021.

Income from locally retained business rates rose by 59.6% between 2013/14 and 2019/20. Prior to 2012-13 the City Council did not receive any direct income from business rates. Instead, business rates were collected centrally and redistributed to local authorities through central government grants. In 2012-2013, business rates provided £348,908,699. By 2019/20, income from business rates had grown to £557,081,00. As such, **locally retained business rates now represent the largest single funding source** for the City Council.

The reason for the increase over time has been the rise in the retention rate of business rates. In 2013/14, when the government introduced the Business Rates Retention Scheme, the Council was able to retain 50% of its business rates income (. This policy was introduced by the Government as an incentive scheme to encourage local government to grow its business rates income (Birmingham City Council, 2019b, p.16).

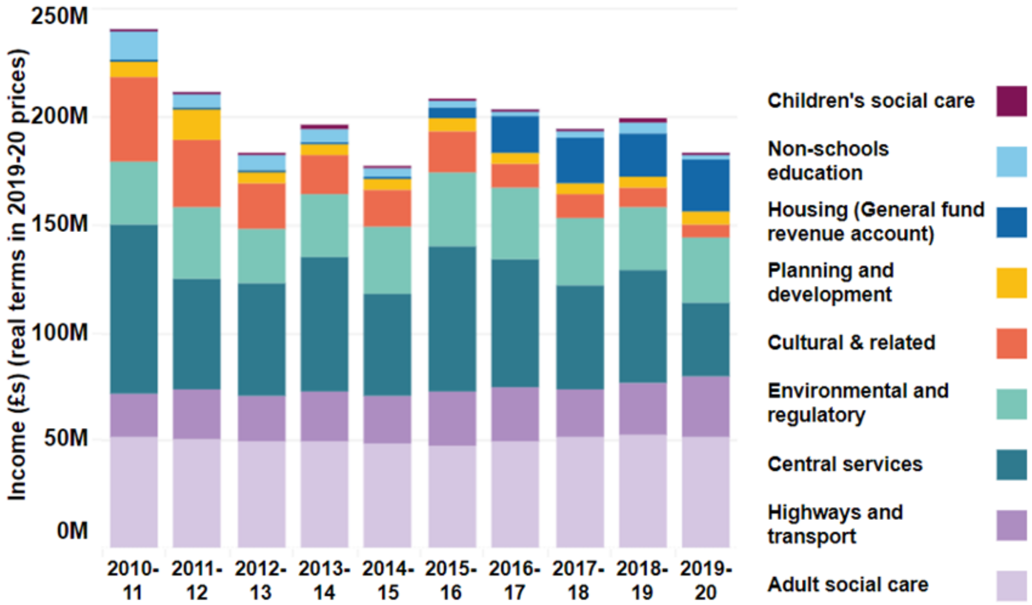
Business rates increased dramatically between 2017/18 and 2019/20 due to Birmingham City Council alongside the other West Midlands District Councils, entering into an agreement with the Government to pilot the introduction of 100% business rate retention, on the condition that they forgo other grant income. The main grant which was phased out for agreeing to this was the Revenue Support Grant and some of the Top Up grant (Birmingham City Council, 2017a, p.5). The government had intended to roll out 100% retention nationwide from 2020/21. However, the legislation on this was delayed due to the 2017 General Election and was not reinstated. The Government now intends to introduce 75% business rates retention from 2020/21, with a long-term aspiration to introduce 100% retention (Birmingham City Council, 2019b, p.16). There is a lack of clarity as to whether the Government intends to allow the West Midlands to continue with the 100% pilot into 2021/22 (Birmingham City Council, 2019b, p.16).

Schools Revenue Funding between the 2010/11 and 2019/20 budgets

Additionally, there has been a fall in income for schools funding. In 2010/11 it was expected, (in 2019/20 real terms prices) that schools revenue expenditure funding would be around £956 million (Birmingham City Council, 2010). In 2019, funding for schools was expected to be around £729 million (Birmingham City Council, 2019a, p.14) this represents a real terms fall of 23.8%. This is a massive fall in funding for schools. A large proportion of this fall is likely related to the freeze on teachers' pay under austerity, seeing teacher pay in real terms value fall by 19% between 2010 and 2022 (NASUWT, 2022).

Funding from Services

Figure 9: Income from sales, fees and charges by service for Birmingham City Council 2010/11 to 2019/20



Source: NAO, July 2021.

This bar chart shows the income generated from sales, fees, and charges by service for Birmingham City Council from 2010/11 to 2019/20. The Local Government Act 2003 introduced a general power to charge for discretionary services provided that they are not prohibited by other legislation and the council does not make a profit. For instance, income from central services relates to providing discretionary services, such as local tax collection, emergency planning and the registration of births, deaths, and marriages (LGA, 2010, p.3).

Table 1: Income from sales, fees and charges by service, 2010/11 comparative to 2019/20

Service	2010/11	2019/20	Percentage Change
Children's Social Care	£464,346	£66,000	-85.8%
Non-Schools education	£13,489,256	£3,209,428	-76.2%
Housing (general revenue fund account)	£303,295	£23,870,000	7770.2%
Planning and Development	£8,181,899	£5,854,000	-28.5%
Cultural & related	£39,388,321	£6,485,000	-83.5%
Environmental and regulatory	£28,567,289	£29,313,000	2.6%
Central Services	£78,402,813	£34,778,000	-55.6%
Highways and Transport	£20,527,633	£27,884,000	35.8%
Adult Social Care	£50,974,642	£51,405,000	0.8%
Total income	**£240,299,494**	**£182,864,428**	**-23.9%**

Source: NAO, July 2021.

The table above shows the change in income between 2010/11 and 2019/20 by service, using the income figures from Figure 9. Of the nine services through which sales, fees and charges income are received, five have seen a reduction and four have seen an increase.

One of the largest **decreases was in income from cultural and related income which has fallen by nearly 83.5%**. Income has decreased from £39,388,321 in 2010-2011 to £6,485,000 in 2019-2020 (NAO, 2021). Some of the drop in income from cultural services is likely to be related to the City Council selling the events group NEC in May 2015 (Morris, 2014). The NEC and three other venues owned by the Council were sold for £307 million, due to the Council considering that the assets could not be managed after the Council budget was reduced due to the decrease in government grants. These assets were also sold to contribute towards costs associated with the Council settling an equal pay dispute (Brown, 2015).

Income from **non-schools' education services[8] decreased by 76.2% between 2010/11 and 2019/20**, from £13,489,256 to £3,209,428 in 2019 real terms prices. It is not clear from Birmingham City Council's various budgets and financial plans why there has been such a significant decrease in this area. However, it was noted in Birmingham City Council's 2013 budget that £275 million was saved between 2010/11 to 2012/13, by reducing the non-school's workforce by 27%. The reduction in capacity may have led to services being cut and in turn would also reduce any income being created through these services.

In contrast**, income from highways and transport services has increased by 35.8%** from £20,527,633 in 2010/2011 to £27,884,000 in 2019/2020. However, the various budgets and financial plans from the Council do not explain where the rise has come from.

With regards to Children's Social Care, **income fell by 85.8%** from £464,346,000 in 2010/11 to just £66,000 in 2019/20. Again, it is not clear why there had been a fall in income from this service.

[8] Non-schools education refers to income from services outside of the council-owned school settings such as behavioural support, safeguarding and tutors.

Spending

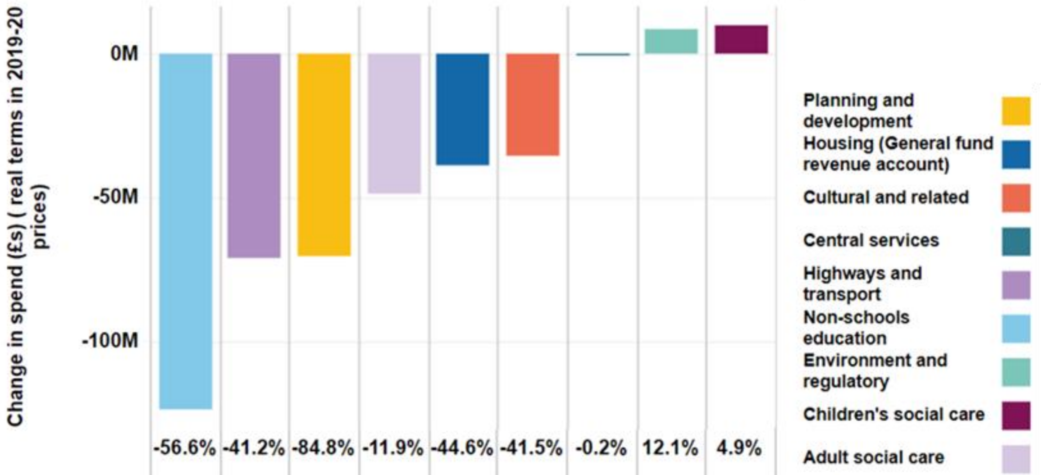
The following sections of this report examine changes in spending by Birmingham City Council between 2010/11 and 2019/20.

Trends in Overall Spending Levels

Total gross expenditure by Birmingham City Council in 2019/20 was £3,109 million (Birmingham City Council, 2019a, p.14). This represents a nominal terms 14.1% decrease in expenditure in comparison to the 2010/11 expenditure of £3,548 million (Birmingham City Council, 2010, p.3). In 2019 real terms prices, the 2010 expenditure would equate to £4,277 million[9], **equating to a 27.3% decrease in expenditure.**

Change in Service Spend

Figure 10: Percentage Change in service spend by Birmingham City Council from 2010/11 to 2019/20



Source: NAO, July 2021.

Between 2010/11 and 2019/20, the **largest percentage decrease in spending was on Planning and development** (-84.8% over the period). Non-schools education spending also experienced a 56.6% decrease. **The Environmental and regulatory service benefitted from the largest percentage increase in spending over this period with a 12.1% increase** (NAO, 2021).

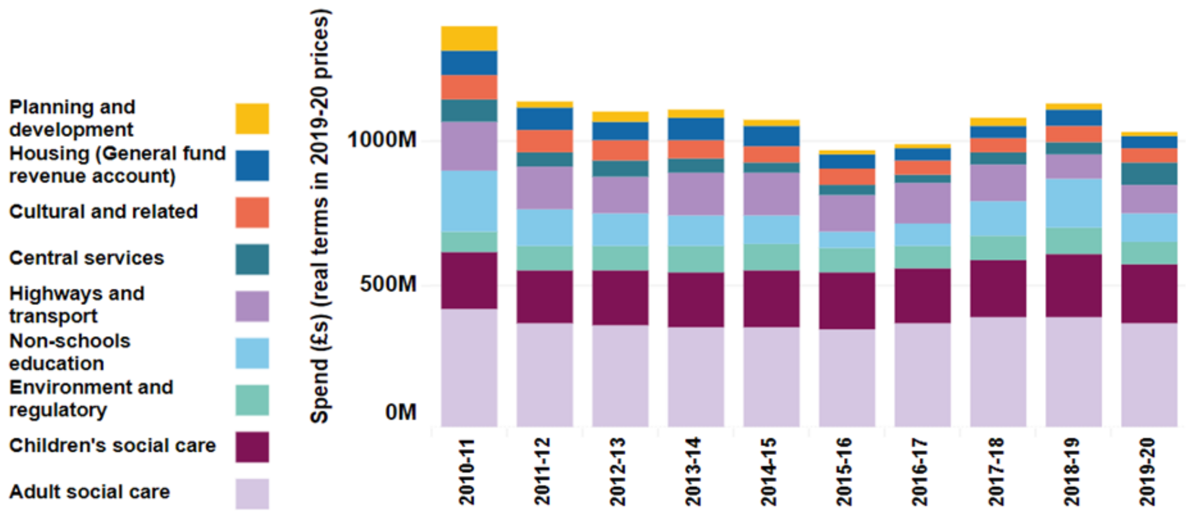
The decreases in spending outlined below illustrate the challenges **local authorities are facing regarding affording the provision of statutory and discretionary services.** The 2018 NLGN Leadership Index is based on a survey of leaders, chief executives, and council mayors of local authorities in the UK. As shown in Figure 11, the survey found that less than one third of respondents considered that they will be able to continue to provide discretionary services beyond the next five years. Only 20% of respondents in the West Midlands suggested their Council would be able to continue to provide discretionary services over five years.

[9] Based on calculations using Bank of England Inflation Calculator: https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

Figure 11: Length of time that Councils will be able to continue discretionary services

***Source:** NLGN Leadership Index, New Local, 2018.*

Figure 12: Service Spend from 2010/11 to 2019/20 Birmingham City Council



Source: NAO, July 2021.

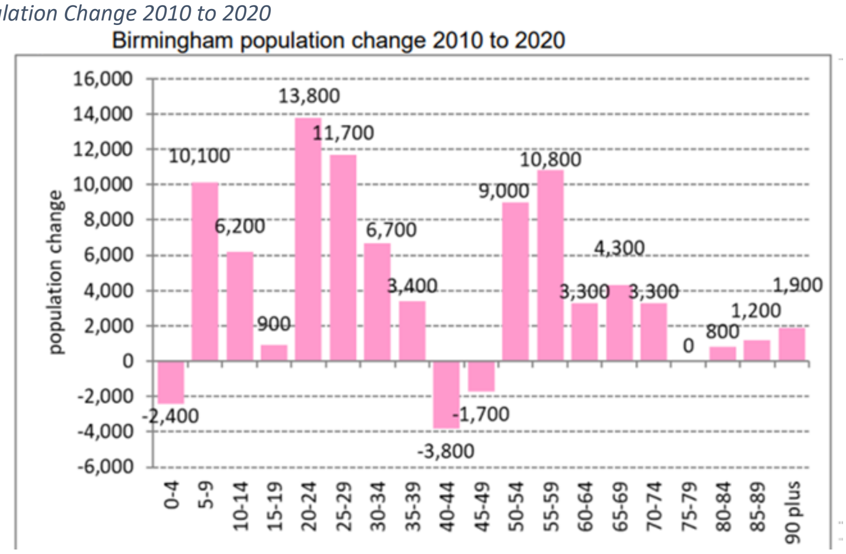
Figure 12 shows that **service spending** by Birmingham City Council **has decreased from £1.4 billion in 2010-11 to £1 billion** in 2019-20. This represents a **26% decrease, in real terms 2019 prices.** The chart indicates important changes, including changes to the amount spent on non-schools education covering services such as early years (nursery education) behavioural support, educational psychology, governors, safeguarding, school improvement, SEN support and youth work, which fell from £218,078,177 in 2010-2011 to £94,563,699 in 2019-2020 (NAO, 2021). This has dramatically reduced support systems and services for young people.

Between 2010/11 and 2019/20 there has been a **41.2% decrease in spending on Highways and transport**, from £171.8 million to £101.1 million in 2019 (NAO, 2021). It was not highlighted in the within the Council Budget or Financial Plan, why there was a fall in this area. However, it is likely that due to the years of austerity where the Council had to make decisions as to where savings should be made, the Council chose to protect statutory services such as social care, rather than protecting discretionary services like Highways and transport.

Birmingham City Council spent £12,645,000 on Planning and development in 2019/2020 compared to £83,313,128 at in 2010/11 (NAO, 2021). This is an **84.8% decrease in spending on planning and development**. However, it is not clear as to why there has been such a dramatic fall in this area.

Spending **on children's social care** on the other hand, has **increased slightly by 4.6%** since 2010/2011 according to the NAO data presented in Figure 10. This increase in spending may be attributed to the increase in the population of 0 – 15-year-olds. Figure 13 indicates how the population of Birmingham has changed between 2010 and 2020. As can be seen in the figure there has been significant growth in the number of people aged 5-14. This increase in the number of children will likely have led to increased demand on children's services, thereby increasing spend.

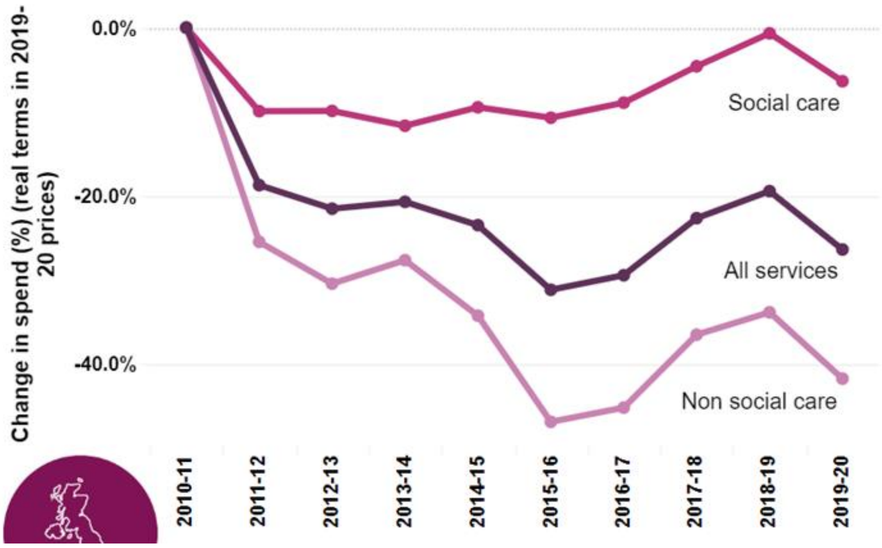
Figure 13: Birmingham Population Change 2010 to 2020



Source: Birmingham City Council, 2021, p.5.

Change in Service Spend by Type

Figure 14: Changes in spend on Social care and Non-social care services Birmingham City Council 2010/11 to 2019/20



Source: NAO, July 2021.

Similar to trends for Birmingham City Council's income, we can see that total spending has also decreased. Spending on **all services has dropped by 26.4% since 2010-2011**. The **biggest drop in overall spending was in non-social care**[10] where spending dropped by 41.7% from 2010-2011 to 2019-2020.

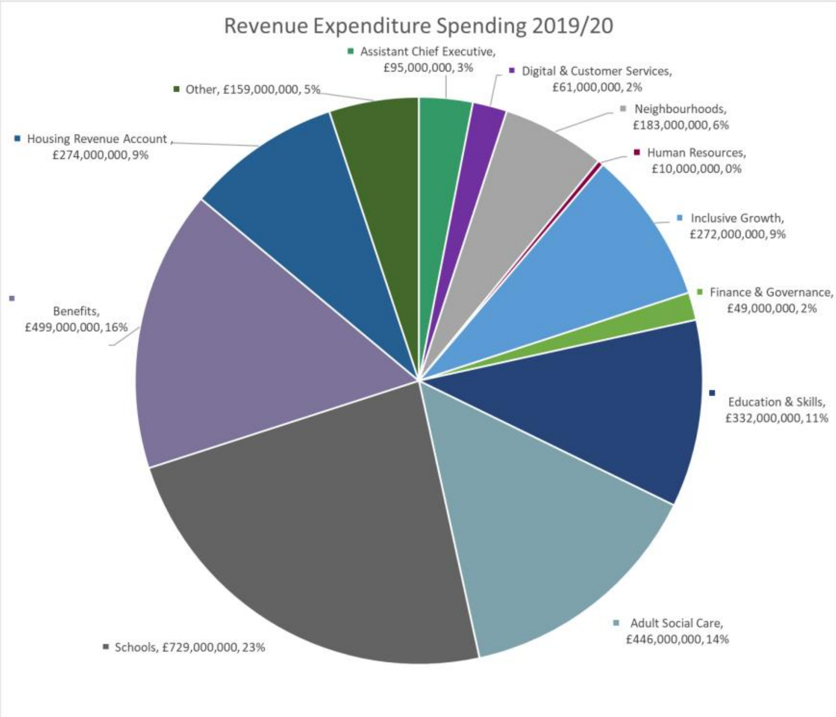
Change in Budget expected revenue funding between 2010/11 to 2019/20

Just before the beginning of a new financial year the Council sets the budget for its expected spending in the year. Figures 15 and 16 below show Birmingham City Council's expected revenue expenditure spending in 2019/20 and

[10] Non-social care refers to all other services in Figure 13 apart from adult and social care.

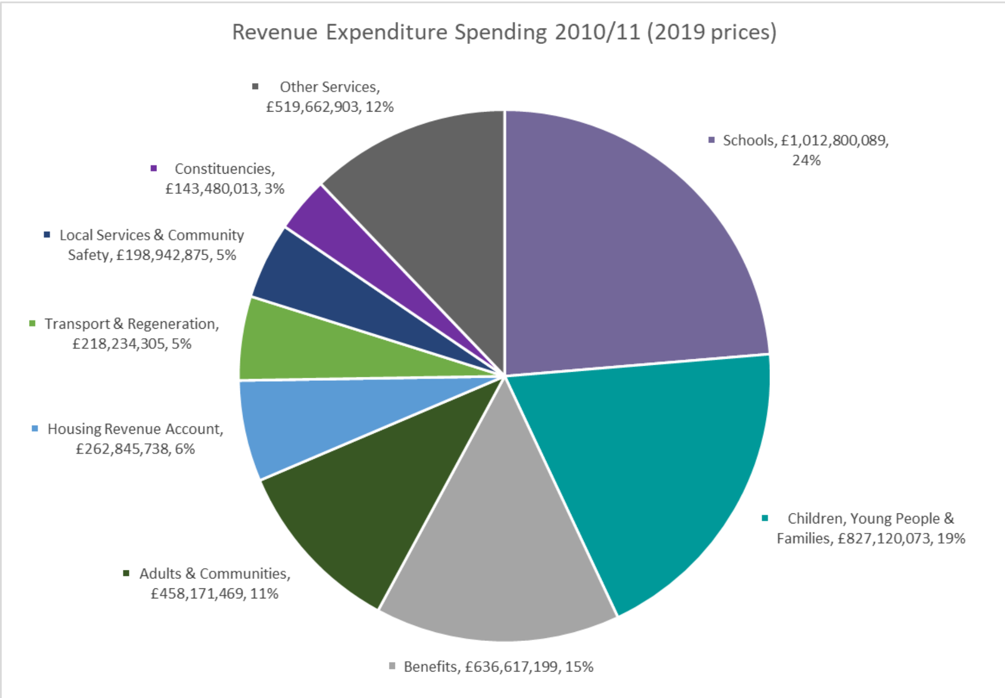
2010/11. Spending streams between the two have drastically changed; there is very little similarity between the spending streams in each budget. This makes it difficult to compare across the budgets as the purpose and aims of spending have changed.

Figure 15: Birmingham City Council Budget Revenue Expenditure Spending 2019/20



Source: Birmingham City Council 2019/20 Budget, 2019a, p.15.

Figure 16: Birmingham City Council Budget Revenue Expenditure Spending 2010/11



Source: Birmingham City Council 2010-2011 Budget, 2010, p.2.

Table 2 shows changes in the breakdown of expenditure on adult social care services between 2010/11 and 2019/20. Over this period **adult social care revenue expenditure spend[11] decreased by 2.5%** from £457,953,325 in 2010-2011

[11] Adult Social Spend refers to spending on services for adults to 18 to 65+.

(2019 real terms prices) to £446,314,000 in 2019-2020. This fall occureddespite a projected increase in the population of persons over the age of 90 of 16.9% between 2017 and 2022 (Birmingham City Council, 2021, p.5). Therefore, whilst there has been only a small decrease in adult social care spend there has been a massive increase in reliance on the services, especially services related to elderly social care.

Table 2: Changes in Adult Social Care Revenue Expenditure Spending between 2010/11 and 2019/20

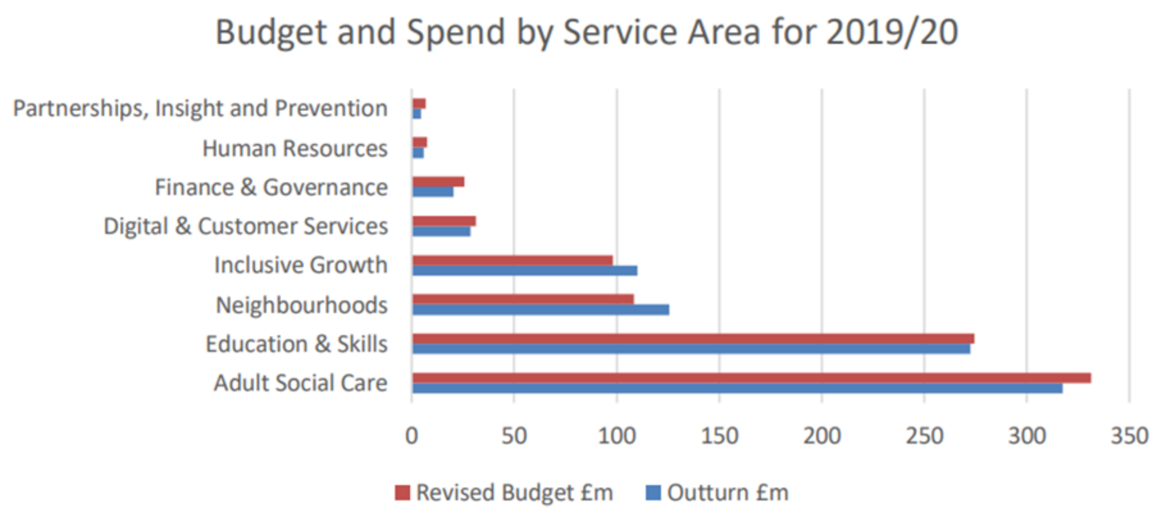
Adults & Communities Revenue Expenditure Spending 2010/11 (2019/20 real terms prices)		**Adult Social Care Revenue Expenditure Spending 2019/20**	
Service	Expenditure	Service	Expenditure
Catering & Facility Services	£598,034	Corporate Director	£42,795,000
Meals Direct	£1,311,817	Adult Packages of Care	£290,505,000
Service Strategy	£64,714,309	Assessment & Support Planning	£40,092,000
Older People's Services	£208,445,110	Specialist Care Services	£32,585,000
Adults with a Physical Disability	£29,819,728	ASC Commissioning	£40,337,000
Adults with a Learning Disability	£115,968,022	**Total**	**£446,314,000**
Adults with Mental Health Needs	£30,293,574		
Persons from Abroad	£1,047,766		
Other Adult Services	£11,718,338		
Supported Employment	£154,331		
Lifelong Learning (Adult Services)	£17,295,973		
Government Grant Income	-£23,413,768		
Total	**£457,953,235**		

Source: Birmingham City Council 2010-2011 Budget, 2010 and Birmingham City Council 2019 Budget, 2019.

Certain services are not being provided directly by the Council anymore, such as Meals Direct, due to being outsourced to independent firms (Business Live, 2013). It can be inferred that wider Adult Care Services are still being provided but are contracted out to private firms. However, cuts have almost been made to adult social care, with the reduction of central government grants to councils. With Adult Social Care spending per head decrease by 18% in Birmingham between 2010 and 2018 (TUC, 2020).

Capital and Revenue Expenditure by Service Area

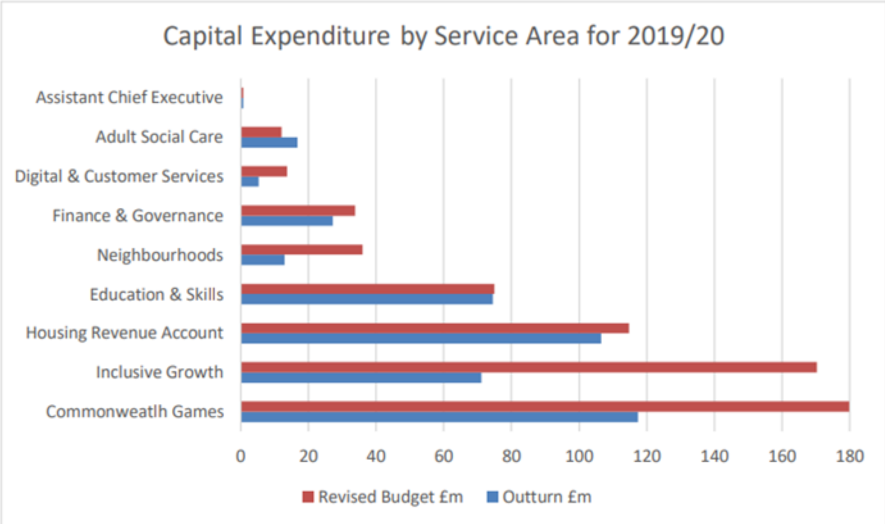
Figure 17: Revenue Expenditure by Service Area for 2019/20



Source: Birmingham City Council Statement of Accounts 2019/20, 2019.

Adult Social Care had the greatest amount of revenue expenditure, with over £300 million allocated to the budget and spent. Extra spending on services such as Education and Skills and Adult Social Care is due to the Council needing to ensure they can fund activities to support the community (Birmingham City Council, n.d., p.12). These are services that councils have a legal obligation to provide, as opposed non-statutory service areas such as Human Resources.

Figure 18: Capital Expenditure by service areas for 2019/20



Source: Birmingham City Council Statement of Accounts 2019-20, n.d.

Figure 18 illustrates the main capital expenditure streams by Birmingham City Council. **Total capital expenditure for 2019/2020 was £432.3 million** (Birmingham City Council, n.d., p.13)[12]. It emphasises how the greatest proportion of capital expenditure in 2019/2020 went towards the Commonwealth Games which has a budget of £180 million. However, this spending was 75% funded by government grants (totalling over £594 million). The remaining 25% included contributions from key local and regional partners, representing an investment of £3 from the Government for every £1 of local investment (Birmingham City Council, 2019b, p.8).

Capital expenditure on the Inclusive Growth[13] Directorate gross income was £89 million, and expenditure was £121.3 million (Birmingham City Council, n.d., p.24). Notable projects this was spent on include planning projects, such as a commitment of £43 million on Paradise Circus as part of the Enterprise Zone (Birmingham City Council, n.d., p.101). £22.6 million was spent on a housing development contract with InReach (Birmingham City Council, 2019a, p.51). This is part of capital expenditure designed to address the housing shortage. In 2017, the Council entered an agreement with InReach, whereby the Council agreed to sell 200 void[14] council properties each year since 2017 (Birmingham City Council, 2017b). For each property they sold, InReach would rent these out at market rent to finance new builds for social or affordable rent (Birmingham City Council, 2017b).

Budgetary Pressures

In recent years the Council has faced many budgetary pressures, as highlighted in their various budgets and financial plans since 2010/11. Aside from austerity (as discussed in the Introduction), specified budgetary pressures include:

Adult Social Care

The Financial Plan for 2019 to 2013 (2019b) outlined that there were increasing pressures, on adult social care as a result of changing demographics. Across the UK, local authorities are struggling with the pressures on adult social care, brought about by an aging population, with increasingly complex needs, combined with rising costs (e.g. living wage).

[12] Capital expenditure refers to money that is used for the construction or improvement of buildings, vehicles, land such as roads and streetlights (LGIU, 2022).

[13] Inclusive growth refers to economic growth that creates opportunities for all in society and population and distributes in both in monetary and non-monetary term fairly (JRF, No Date, p.2).

[14] By 'void council properties', we are referring to council properties that become empty.

According to the Council, increasing costs associated with providing care for long term complex needs has created a budget pressure, largely resulting from the impact of the living wage on the care sector, which historically has been a low paid workforce (Birmingham City Council, 2019d, p.28). Pressure is also seasonal and rising in demand during the winter period. Although, Birmingham has one of the youngest populations of any local authority, it also has the largest population outside London. Therefore, whilst proportionally Birmingham City Council's spend on the elderly may be lower than that of other local authorities, it still has to provide services for a much larger nominal group of dependents.

Children's Services

The Council also highlighted that children's services continue to face significant demographic and demand pressures as a result of high birth rates, increased migration to the city and an increased population of children and young people with complex needs. In addition to this, Birmingham has a higher proportion of pupils with an Education, Health and care (EHC) Plan or a Special Education Needs statement than the UK average. This means that Birmingham has a higher proportion of children for whom it is more expensive to provide support, thereby contributing to the increased budget pressures (Birmingham City Council, 2019b, p.30).

Redundancy Costs

To balance the budgets over the years, the Council's 2018 financial plan and budget highlighted, that redundancies were a necessity (Birmingham, 2018, p.29). By 2018, the Council had reduced its staff by 40% compared to in 2010 (Birmingham City Council, 2018, p.29), rising to 48% (a reduction of 12,000 jobs) by 2019. The Council anticipated that by 2022/23 they would have further reduced their workforce by 1,579 full-time equivalent (FTE) staff (Birmingham City Council, 2019b, p.36). In total, by 2022/23 this would be a 54.3% reduction in staff from 2010. Redundancies incur costs, which can put a strain on local authority funding in the short run but will make savings for the local authority in the local run.

Equal Pay Settlement

Back in 2012, Birmingham City Council was taken to court by women launching a pay equality compensation scheme. 170 women were among the female workers denied bonuses; in general these women were in traditionally female-dominated roles such as cooks, cleaner and care staff, over several years (Press Association, 2012). Whilst similar bonuses were awarded to employees in traditionally male-dominated roles such as refuse collectors, street cleaners and grave-diggers (Press Association, 2012). The women won the case, and the council was ordered to compensate the women for their loss of earnings. By April 2017, the council had settled £988.7 million of the £1.2 billion in total estimated Equal Pay liabilities (Birmingham City Council, 2018, p.29). The revenue implications for the Equal Pay settlements have greatly impacted the Council, as they have had to find the funds in a shrinking budget to pay for these liabilities. The Council was forced to sell the NEC, to raise vital funds to pay for the equal pay compensation bill (Morris, 2014). It has led to rising capital financing costs arising from capital expenditure in previous financial years, loss of income and other costs arising from asset sales, alongside funds having to be borrowed from earmarked reserves on a temporary basis (Birmingham City Council, 2018, p.29).

Inflationary Pressures

Price inflation increases costs for the Council each year, with the Council seeing inflationary pressures of over £50 million between 2014/15 and 2018/19 (Birmingham City Council, 2019b, p.14). Inflationary pressure with reducing income essentially gives rise to lower capacity for the Council as it leads to less revenue and capital funding to provide services in the long run.

Inflation has been a long running issue for the Council and built into financial plans. Between, 2019/20 and 2022/23 the Council had allowed for £79.2 million of net inflation and a 10% energy allowance for services (Birmingham City Council, 2019b, p.35). This did not take account of energy price increases – even with the introduction of the energy price cap, energy prices have increased around 90% since March 2022 (Pugh, 2022). Local authorities will continue to face considerable inflationary pressures over the next year requiring them to consider reducing non-essential services.

Insights from Qualitative Interviews

The two qualitative interviews conducted provide insights into the challenges and strengths of the current local government funding system in relation to the experiences of Birmingham City Council.

Challenges associated with competitive bidding

Several interviewees indicated that a key current challenge regarding local government funding is the value of funding allocated through **competitive bidding**. An interviewee stressed that the competitive nature means that a lot of time is spent preparing the bids to try and stand a chance of winning; this time and resources could be better used elsewhere:

"One of the problems with distributing money in that sort of competitive way, is that we spend a lot of resource and a lot of time preparing the bids, because […] bids have to be a certain quality, if they're going to stand a chance of winning against the […] other local authorities, so […] people argue that is a waste of resources"

The interviewee added that competitive funding models also create issues in terms of the extent to which funding awarded following competitive bids rather than formula calculations responds to local levels of need:

"Who gets the money will, to a large extent depend on who's got the best people writing the bids, rather than any objective analysis of where the needs are".

The interviews suggested that the nature of competitive funding also limits collaboration between local authorities within regions such as the West Midlands when collaboration is essential for effective promotion of levelling up:

"It makes us compete against each other. Whereas what we really need to do is collaborate particularly in areas like the West Midlands, where we've got seven metropolitan councils, we should be working together, and we do work together. But things like the Levelling Up Fund divide us because we're all after the same pot of money."

An interviewee argued that to address these challenges, it is preferable to move towards a 'Single Pot' funding system, whereby instead of local authorities being required to bid for funding from multiple funding pots, funding is integrated into a single pot that is devolved to local government. Integrating the funds together and allocating these funds in a single pot, could increase the freedom of individual councils to decide how to spend funding according to local needs. Creating a single funding pot may also improve cross local authority projects. One interviewee described a current lack of co-operation within the West Midland's region.

"*In part, if you compare the West Midlands to the North West, the North West has been much better at securing resources. That's partly because the North West knows how to play the game. In my mind they loathe each other but they are very good at going down to government and putting a case. But the one thing that unites the West Midlands leaders […] is mutual distrust […]. That is […] problematic"*.

However, the interviewee indicated that strengthening a single pot regional funding mechanism would necessitate the use of strategic planning together across the local authorities in the West Midlands and in turn has the potential to improve services such as childcare or housing.

Challenges relates to business rates

Interviewees also identified several **challenges relating to the current design of business rates**. The first challenge raised relates to the sustainability of business rates as a reliable source of income for local government given shifts in retail and online businesses. They pointed out that tax from business rates does not apply to all businesses.

"A lot of people argue that business rates are, you know, an outdated system that no longer works, because of the changes in the high streets and the way we work, and all of that, and the fact that online businesses are just not

affected at all, they are paying no tax. But when it comes to things like doing their deliveries, they're reliant on local government services, like roads, just as any other business".

This indicates a potential need to review how business rates work and how they apply to different types of businesses. Such a review could investigate the strengths and challenges of extending business rates to apply to newer forms of business, such as those that primarily operate online.

The second challenge relates to the proportion of business rates retained locally by local authorities such as Birmingham City Council. One interviewee described how whilst local authorities can now keep 50% of business rates, promised reforms to enable local authorities to keep a greater proportion of business rates, have not been implemented[15].

"What they (the government) have been trying to do since 2010, […], particularly, was develop a system whereby progressively more of those business rates would be kept local, again, rather than going up (to central government). We still can't change the rate of business rates. But we automatically get to keep 50% before it goes into that central pot. The intention was to make that 100% over time, but we haven't reached that yet".

An interviewee argued that giving local councils full control of business rates, is important in terms of increasing council autonomy and flexibility to set business rates according to local circumstances to generate more prosperity in their area. They also highlighted how local government in England is constrained by broader tax regulation. For example, unlike many European cities, local government is unable to introduce tourist taxes to generate further income.

Challenges relating to Council powers to raise council tax

Interviewees also discussed how local councils have **few powers to raise council tax**. As noted in the Introduction, local authorities must hold a referendum if they seek to raise council tax by over 2% annually (Institute for Government, 2022). An interviewee argued that this therefore becomes "*an effective block*" on Birmingham City Council being able to raise council tax since the low turnout in recent local council elections suggests that the Council may struggle to achieve a high turnout in any such referendum. Further, when asked if taxes HAD to rise after the next general election, which type of tax they would LEAST like to see increased, 44% of adult respondents in the Midlands surveyed in 2022 by YouGov selected council tax compared to 49% who selected basic rate of income tax, 44% who selected inheritance and only 34% who selected national insurance and fuel duty (YouGov, 2022)[16]. Therefore, raising council tax could be problematic with the residential population in Birmingham.

An interviewee also argued that, in addition to increasing local authority powers to raise council tax, there is a need to introduce a system which redistributes council tax income from wealthier areas to more disadvantaged areas:

"I'm making a strong argument for more flexibility in devolution, we do also need a bit of redistribution, …we can't just ignore that, because otherwise, the wealthier areas will just keep all their money and generate lots of income from wealthy taxpayers and businesses, […], invest in wonderful services and new facilities and all the rest of it. And the poorer areas will just be left with less and less money because they won't be getting any government grant to compensate".

[15] Though it should be noted the Birmingham City Council has been participating in a pilot to receive 100% retention in Business rates (Birmingham City Council, 2019a)

[16] The full question from the survey was "If taxes HAD to rise after the next general election, which of the following would you LEAST like to see increased? Please tick up to three: Basic rate of income tax, Higher rate of income tax, Top rate of income tax, National insurance, Fuel duty, Capital gains tax, Inheritance tax, Council tax, VAT, Stamp duty, not sure" (YouGov, 2022).

Conclusion

Analysis of Birmingham City Council's budgets and expenditure of indicates that, overall, **income and spending have overall dramatically decreased in real terms since 2010/11**. Funding for and expenditure on key services that Birmingham City Council must provide decreased considerably over this decade. **Spending power per capita decreased by 40.8%** over this period, and **net service spending fell by 26%**. The sharp decrease in overall funding from 2013 has occurred despite the continued growth of **the population of Birmingham - rising by 7.6% in 2021** (NAO, 2021).

Income and spending has declined due to a variety of factors including local authorities not being able to rely as heavily upon grants from the government for support as previously. Birmingham City Council, along with most other local councils in the UK, have needed **to make cuts due to austerity**.

Reductions in government funding, due to austerity, have led to **changes in the importance of different income streams to Birmingham City Council**. In 2010/11, government funding made up 72.3% of total funding, whereas by 2019/20 it made up 19.5% of funding. Business rates in 2019/20 made up 43.5% of funding, and council tax 27.3%, comparative to 25.1% in 2010/11. Through these changes the Government aimed to make councils less dependent on government funding. However, councils have little capacity to increase funding from these revenue streams. For instance, local authorities are required to hold a referendum if they seek to raise council tax by over 2% annually and the public are very unlikely to vote in favour of this.

Current funding structures could lead to changing priorities for councils to generate increased income. This could include increased pressure to increase council tax income through approving large scale densely populated housing developments. To generate increased income from business rates, the Council would have to increase business related activities and pull in businesses to its geography. However, as businesses move increasingly online and reduce their high street floorspace this may become increasingly difficult.

Policy Implications

The budgetary analysis and insights from the qualitative interviews conducted as part of this project indicate that there is a need to review funding provided to individual authorities such as Birmingham City Council. In particular, the analysis has highlighted some potential benefits of the introduction of a **single funding pot for the allocation of central government funding to local government**. Such an approach may **reduce the negative impact of the competitive funding model** (in terms of time spent on writing funding applications which could potentially be better used on delivering and managing services). The change from the current competitive funding model may also potentially **reduce competitiveness between local authorities**, as funding would be more likely to be allocated on a need's basis for the local area. Equally, under a single pot system, local authorities may be **more likely to collaborate on projects** because there would be less competition for the same funding. The introduction of a single funding pot would also increase the freedom that local authorities have to **allocate funding according to local need**.

This independence would also provide the ability to **strengthen regional co-ordination and funding across the West Midlands**. This may allow for the strengthening of services such as Adult Social Care, whereby due to loss of central government grants, funding to services has been lost too.

Other policy recommendations include **creating a corporate function** that facilitates more income into the city, whether it is through the existing or future bidding processes is actually allocated around the region, going to the Combined Authority and then out to various delivery agencies, including local authorities. This collective engagement may not only **ensure more investment** for Birmingham City Council, but also **improve regional collaboration and coordination** to help support community groups and voluntary sector to bid for charitable funding in local areas as this capacity has been depleted over the last decade.

Current **council tax bands were based on 1991 valuations** and have not been updated since. This means that they have limited relation to the current value of the properties and do not reflect changes in the wealth in some of these areas. If local authorities had the power to review council tax bands to **better reflect current valuations of properties** in their areas, they would potentially be able to raise a higher level of local taxation.

The reduction in revenue from the displacement of physical retailers **based in local authorities** by **online retailers who generally pay lower business rates than their brick-and-mortar counterparts** prompts a need to **explore the effectiveness of the current business rate system.** This is particularly important given recent growth in businesses that primarily operate online.

Glossary of key terms

Adult Social Care is a statutory service that local authorities are required to provide.

Business rates are a tax that councils place on commercial properties.

Capital expenditure relates to funding on fixed assets including buildings.

Council tax is a tax on domestic properties paid by the occupiers.

Government grants are funding that councils receive from central government.

Non-Schools education income refers to income from services outside of council-owned school settings such as behavioural support, safeguarding and tutors.

Revenue expenditure refers to day-to-day operational spending including administrative costs for council directorates and programme spending. **Revenue in real terms** refers to amount of money gained from revenue with inflation taken into account.

Spending power refers to the amount of money that local authorities have to spend from government grants, council tax, and business rates.

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