

# CIPFA South East - Spring Conference 2019

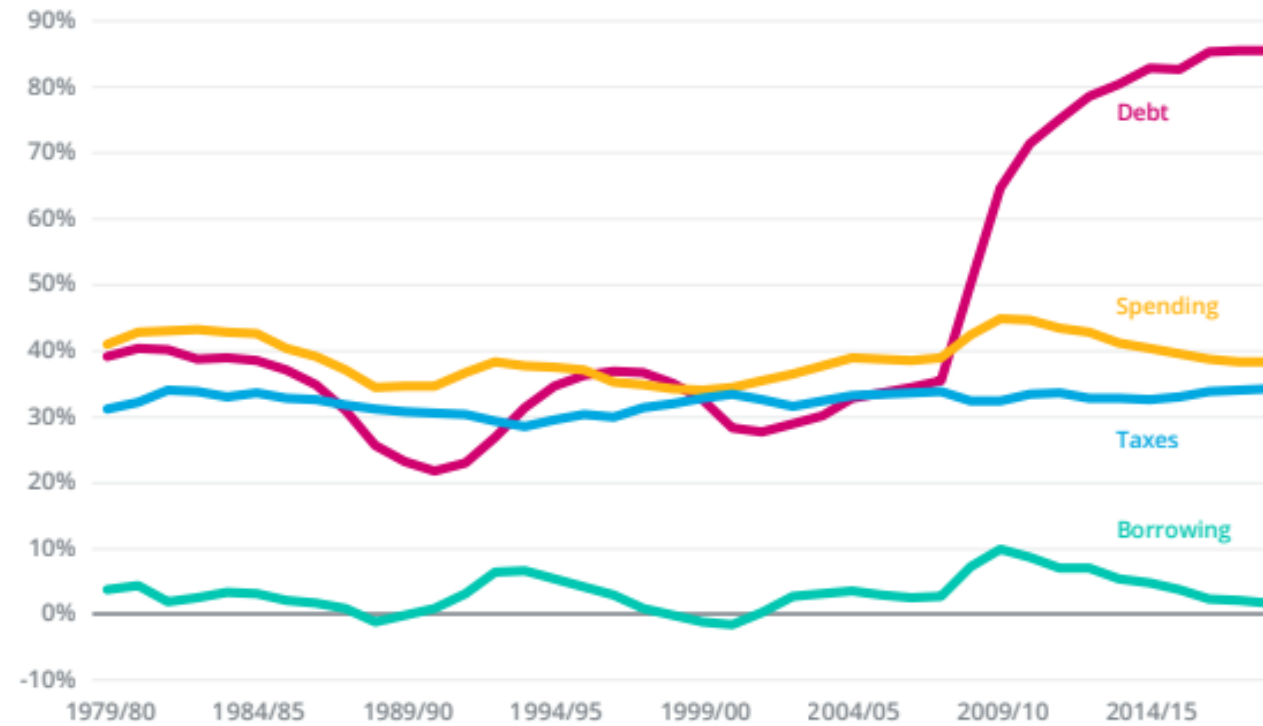
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# Issues for today

- Local government's current financial position and Autumn Budget 2018
- Timetable for the coming two years
- Fair Funding review
- Spending review
- Further retention of business rates
- Devolution
- Politics more generally

### Spending, tax, debt and borrowing as a percentage of gross domestic product, 1979/80 to 2018/19

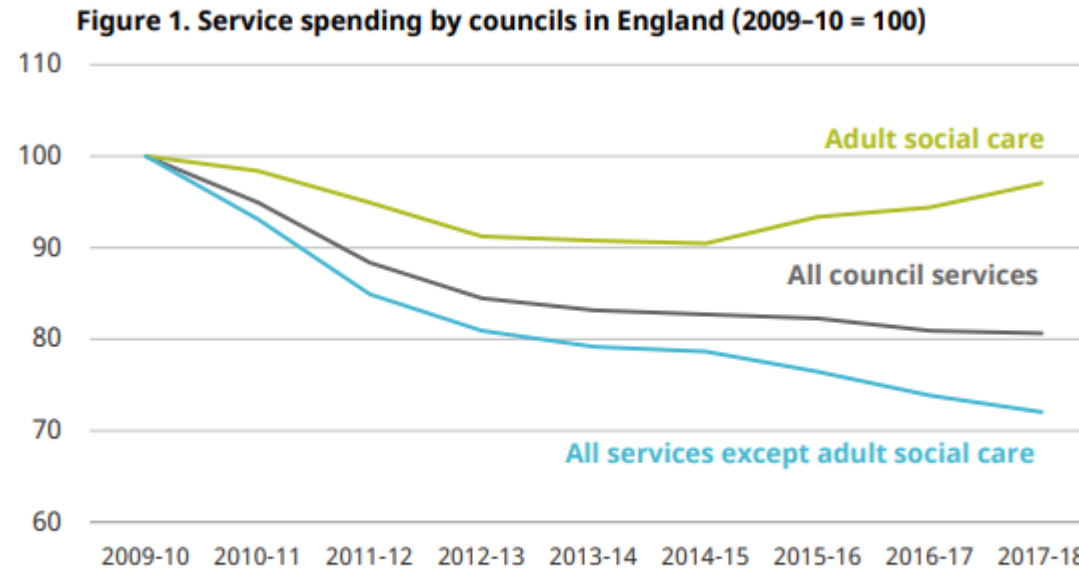


Note: Spending = total managed expenditure (TME). Taxes = national account taxes. Debt = public sector net debt (PSND). Borrowing = public sector net borrowing (PSNB).

Source: Office for Budget Responsibility, *Public Finances Databank*, July 2018

# Local government expenditure

2009-10 to 2017-18



Note: Local authority service spending excludes spending on education, police, fire and public health. It includes spending funded by NHS transfers (i.e. the Better Care Fund). See methodology annex for more details

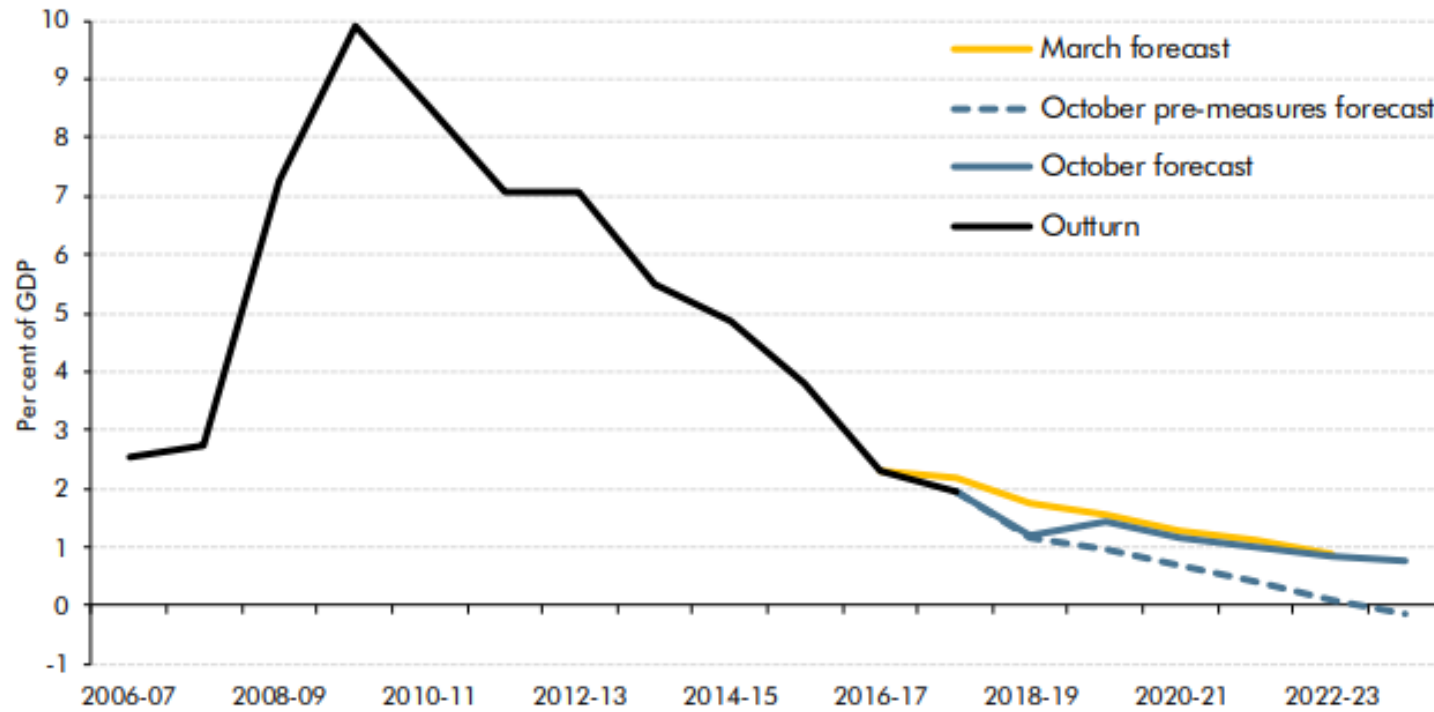
Source: IFS

# Autumn Budget 2018: end of austerity?

- Possibly...and up to a point
  - For the NHS: yes
  - For 'unprotected' services: no
- Deficit reduction apparently paused
- Debt to fall gradually
- Brexit still hangs over the UK's economic future
- Budget 2018 charted path if 'soft' or 'not too hard' Brexit emerges
- If a 'hard' Brexit: probable need for additional Budget and public spending increases (ie higher borrowing and debt again) to provide boost to the economy

# The deficit has finally been reduced to below 2% of GDP

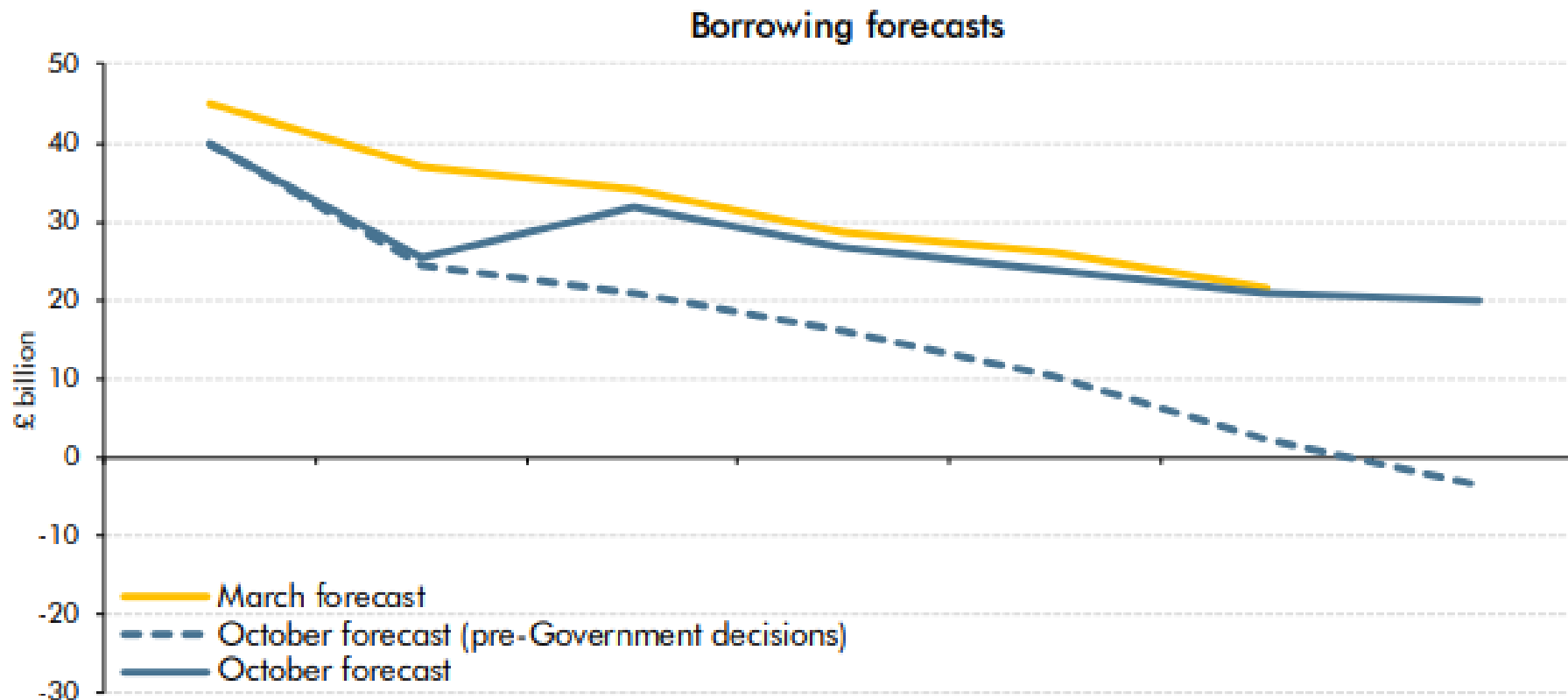
Chart 1.5: Public sector net borrowing



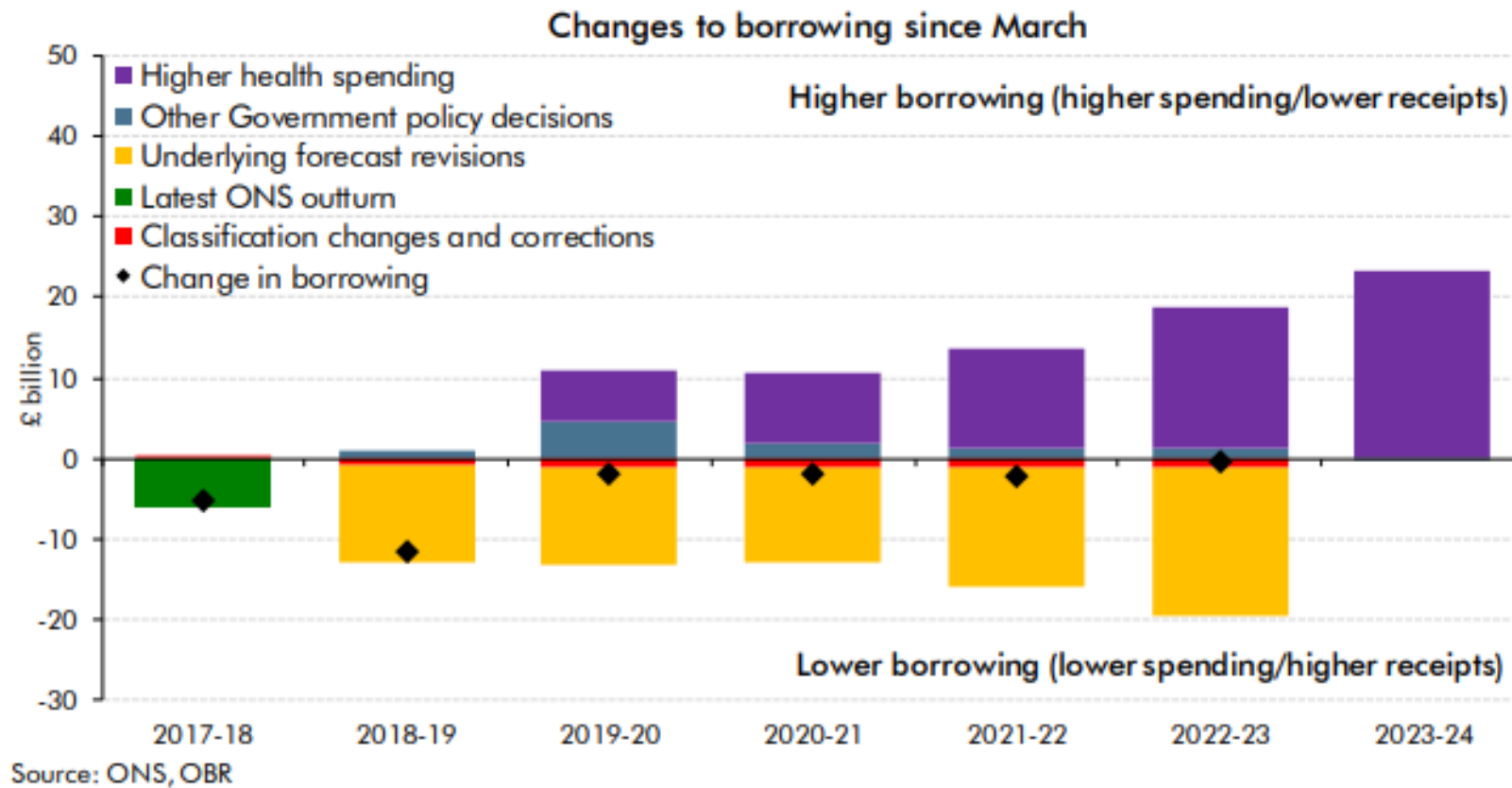
Source: ONS, OBR

# The Chancellor has decided to spend his 'borrowing dividend' from 2019-20 onwards

Chart 1.1: Public sector net borrowing: October versus March



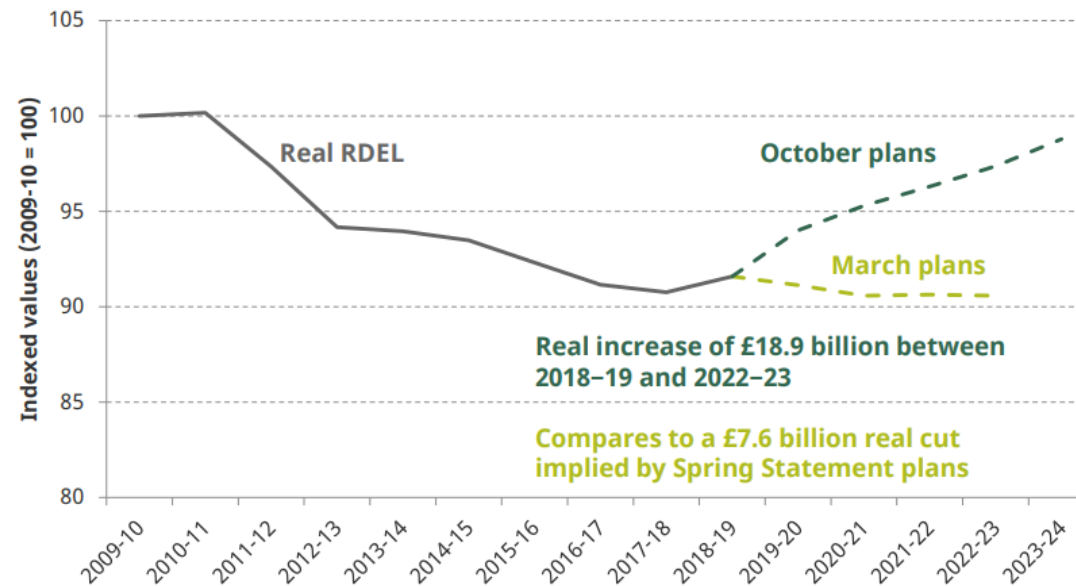
# Where the 'dividend' has gone





# Future public expenditure

## Big changes in the path for day-to-day spending since March



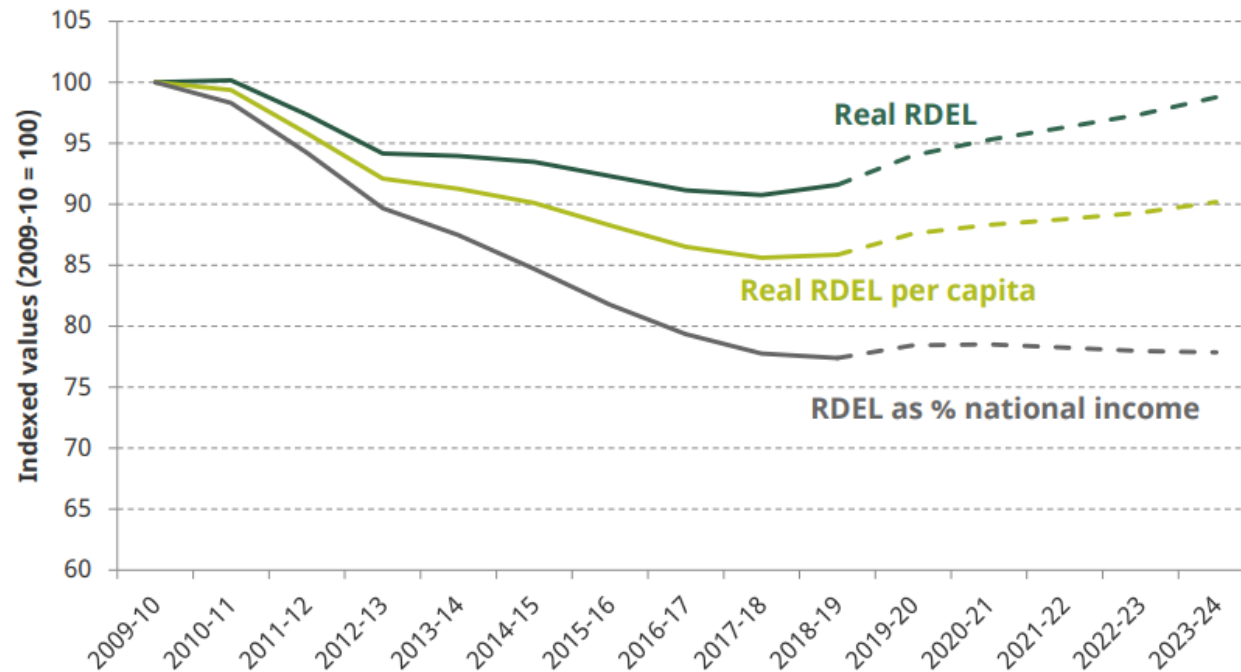
Real increase of £18.9 billion between 2018-19 and 2022-23

Compares to a £7.6 billion real cut implied by Spring Statement plans

Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).  
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

# Current expenditure to grow to 2023-24

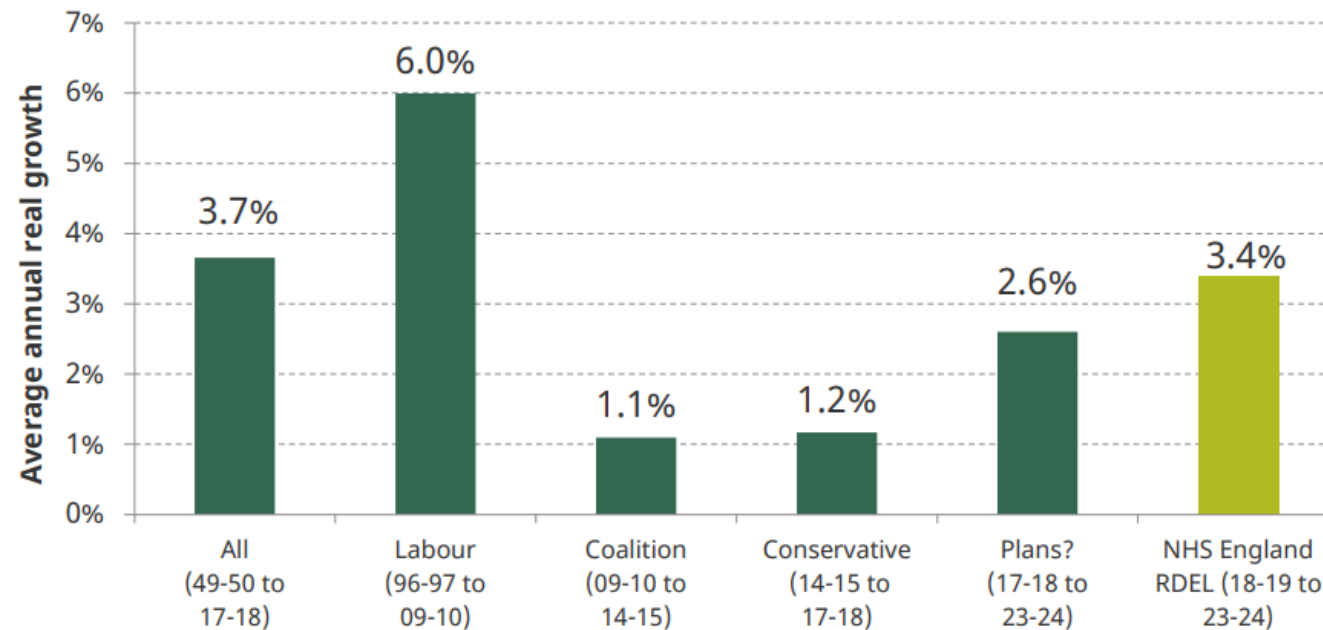
**RDEL now set to grow both in real and per person terms**



Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).  
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

# NHS to see a return to real increases

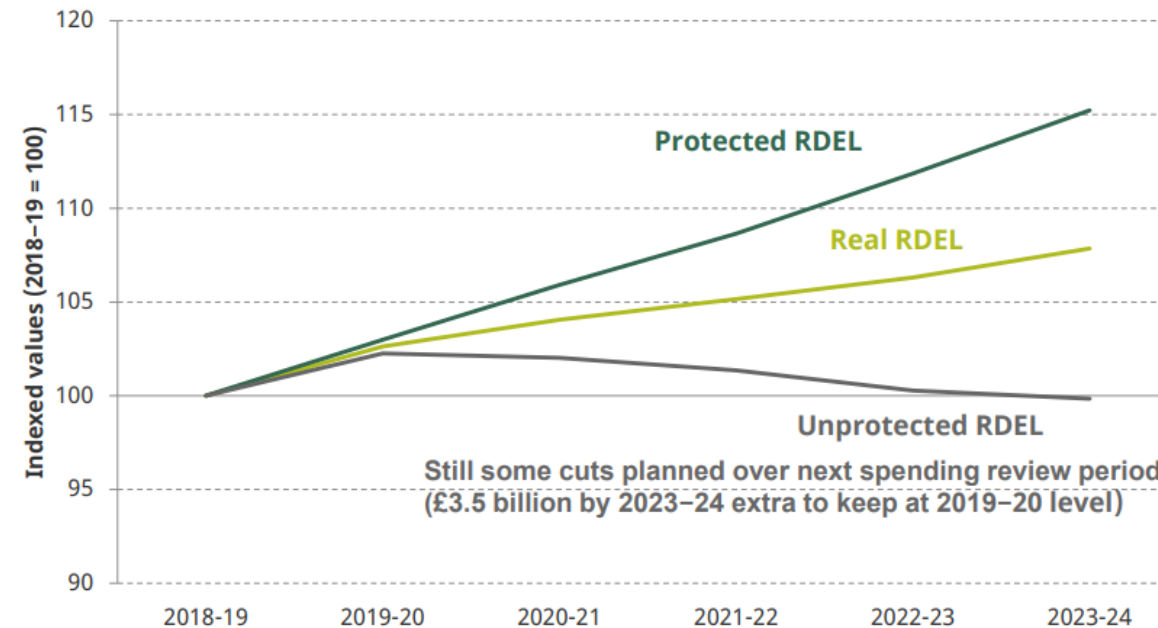
## Historical context for NHS spending plans



Notes and sources: Historical spending refers to UK-wide public spending on health. Nominal health spending data from Office of Health Economics (1955-56 to 1990-91) and HM Treasury, *Public Expenditure Statistical Analyses* (1991-92 to 2017-18). Real spending refers to 2018-19 prices, using the GDP deflator from the OBR in October 2018. Future projections based on spending plans for England (NHS England RDEL plans and an assumed real freeze in other DH spending) applied to all UK health spending. Plans exclude additional spending on NHS pensions.

However, local government, police and fire likely to receive 'real freeze' in resources at best

### Real freeze for unprotected departments between now and 2023-24

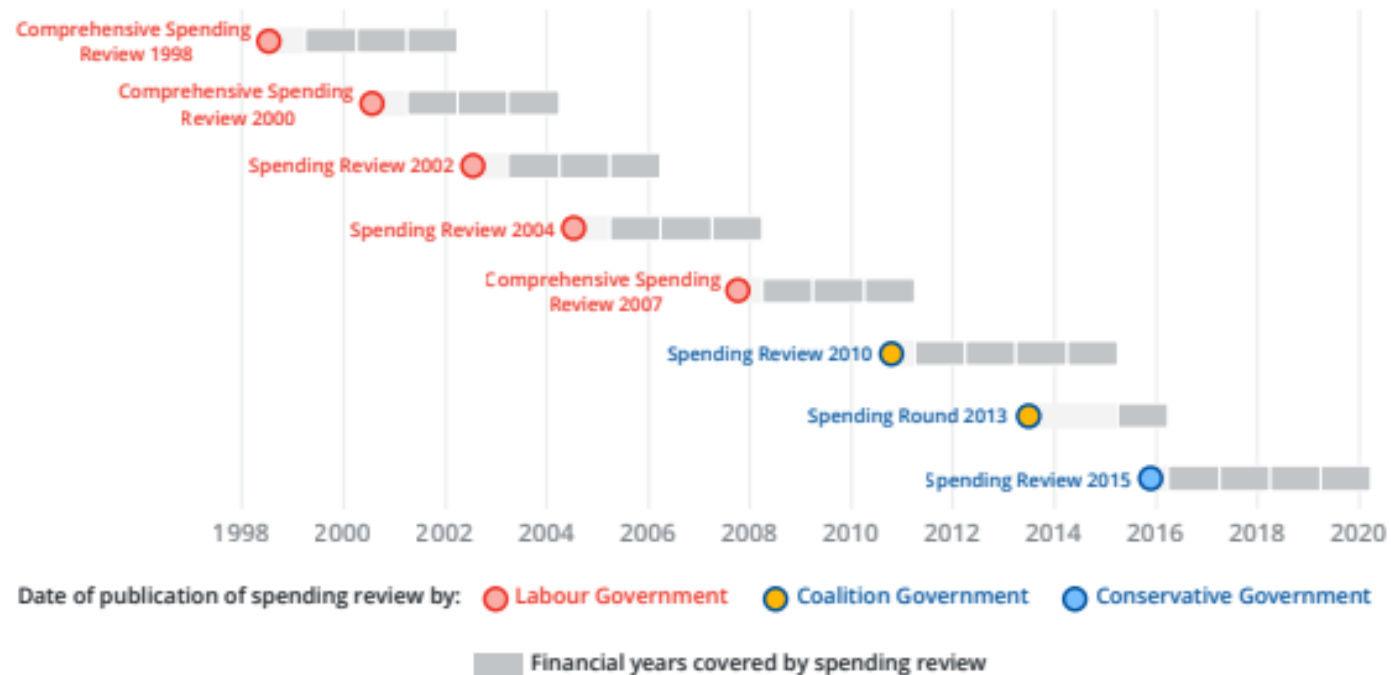


Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).  
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

# Spending Review

# Spending Review, 2019

- previous reviews



Source: Institute for Government analysis



FINANCE

# Brokenshire: Non-health spend will rise at least in line with inflation

20 NOVEMBER, 2018 | BY NICK GOLDING



COMMENT



The housing and communities secretary has insisted to LGC that the forthcoming spending review period should be seen by local government in “a different context” to its recent predecessors during which “real savings” were required.

In an LGC interview James Brokenshire pledged to be “championing the local government sector” in his negotiations with the Treasury in the run up to next year’s spending review which will lay the foundations for government expenditure in 2020-21 and beyond.

Asked when austerity would end for local government, Mr Brokenshire replied: “The prime minister was very clear at [last month’s Conservative party] conference in saying that austerity is coming to an end.”

# Spending Review

- Ministers 'bid' to the Treasury for a share of overall 'Total Managed Expenditure'
- The NHS has already been given its additional £20bn+
- Other services must wait till next year
- 'Local government' spending is partly in a number of departments' separate totals
- Generally, a figure for 'local government spending power' is shown
- This SR will have to accommodate the consequences of redistribution because of the Fair Finding review [To follow]



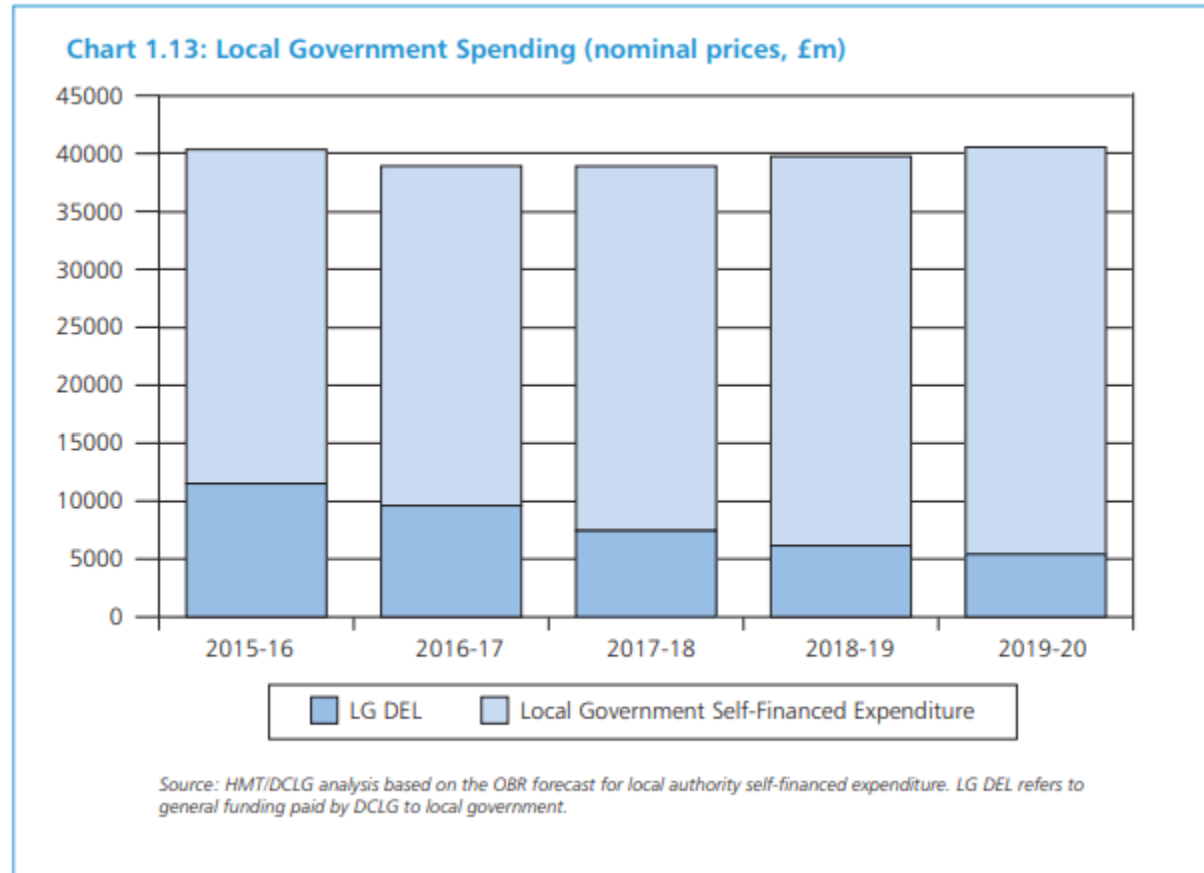
# Spending Review 2015...

## A devolution revolution

The government is committed to the Northern Powerhouse and devolving unprecedented power across the country to give people control over decisions that affect their local communities. The Spending Review and Autumn Statement:

- transforms local government, enabling it to be self-sufficient by the end of the Parliament by paving the way for 100% business rate retention, giving councils the power to cut business rates to boost growth, and empowering elected city-wide mayors
- builds the Northern Powerhouse, including by investing £13 billion on transport in the North over this Parliament, backing innovative businesses with a range of investments in world-class scientific research, and supporting further Northern Powerhouse trade missions to key emerging economies
- demonstrates momentum on devolution to Scotland, Wales and Northern Ireland, including through a commitment to a relative funding floor for the Welsh Government and in principle to an investment fund for the Cardiff region.

# Spending Review 2015...



# The future of local government, police and fire: 2019-20 and beyond

- Real terms cut in 2019-20 for LG
  - For services other than adult care
- Thereafter, possibility of 'spending power' increases in line with inflation – at best – till 2023-24 or beyond
- Spending Review may consider unfreezing council tax?
- 'Fair Funding' review may thus be allowed to redistribute 'spending power' with council tax rising in areas that lose funding?
- In effect, the 30% cut in revenue spending since 2010-11 will become a new baseline
- NDR growth, charges and council tax may be liberalised to allow slight upwards move in spending?

# Timetable for the coming two years

## 2019/20

- Another round of business rates retention pilots 2020/21
- Fair Funding Review and 75% Business Rates Retention – from 2020/21

## 2020/21

- Fair Funding Review and 75% Business Rates Retention begins
- New spending starting-point for councils

# Business Rates retention

# Business Rates retention

- Announced the broad shape of business rates retention in 2020/21
  - 75% retention – rolling-in Revenue Support Grant, Rural Services Delivery Grant, Public Health Grant and GLA Transport Grant
  - Developing assurance mechanism for public health funding • Full re-set in 2020/21 – new baselines set through Fair Funding Review
  - Continued redistribution through top-ups and tariffs
- Range of pilots testing different arrangements:
  - City mayoral areas piloting 100% retention in 17/18, extended into 18/19
  - 100% retention piloted across new London pool in 18/19
  - 10 new pilots in 18/19 – all testing pooling and many in two-tier areas trialling their own tier split

# Business rates retention

- 2017-18: Greater Manchester, Liverpool City Region, the West Midlands, Cornwall, West of England
- 2018-19: Greater London (separate decision from the following)...
- 2018-19: Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds, Lincolnshire, Solent, Suffolk, Surrey [one year only]
  - This latter group can now apply for 75% retention in 2019-20
- Groups of authorities invited to apply for 75% retention pilots for 2019-20
  - “We would expect a proposed pool to comprise a county council and all of the associated district councils; a group of unitary authorities; or a two-tier area and adjoining unitaries, but it should extend across a functional economic area. Proposals will need to set out tier split arrangements of all precepting authorities, including Fire and Rescue authorities”. [MHCLG]

# NDR 're-sets'

- Reform in 2020-21 allows for the NDR position of different authorities to be 're-set'
  - Re-setting affects the incentives authorities have to grow their tax base
- This affects where councils have arrived at by the end of the current arrangements
- Inter-acts with 'fair funding' to produce new 'spending power' figures for individual councils
- Many issues must be determined both at the point of reform and from year to year thereafter





*The 2017 consultation sought the sector's views on full and partial resets, with the sector supporting the concept of partial resets to help ensure that there is an incentive to grow business rates in all years.*

*The system design working group has also considered additional reset options and we are using this consultation to test the idea of phased resets alongside partial resets.*

**Full reset:** growth is retained for a set period and then redistributed in full.

**Partial reset:** growth is retained for a set period and then at a reset such that a proportion of growth retained over the previous period is redistributed, with the remaining proportion is retained with individual local authorities.

**Phased reset:** authorities retain each year's growth for a set number of years and then it is redistributed.



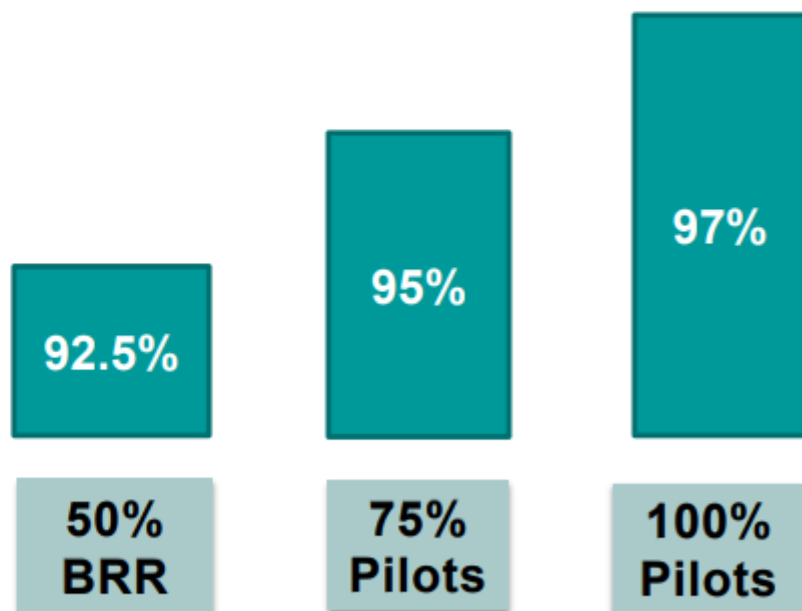
*The length of reset period could vary for all reset types too*



## Safety Net

- The safety net remains an important mechanism as it ensures risk in the system is **proportionate** and **sustainable** at a local authority level.
- The Government has previously confirmed that the safety net will **continue as a 'simple' safety net** whereby local authorities bear some of the risk but will a safety net will kick in if income drops below a certain level (of baseline funding level).
- The consultation seeks local government's views **on the level of the safety net**.
- The appropriate level for the safety net will be influenced by the reform of other elements of the system.

Different safety net levels are being piloted by different areas

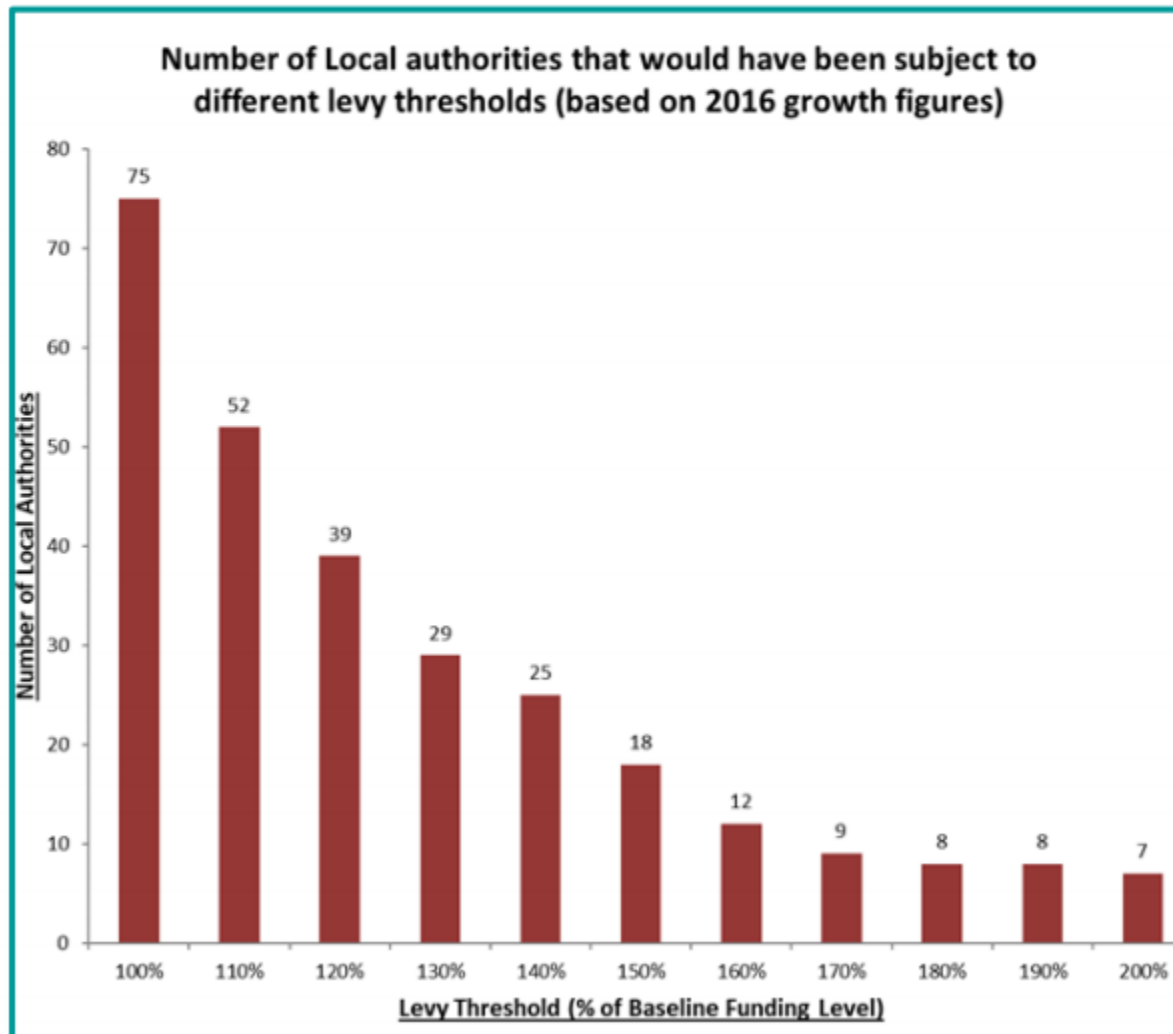




*The Government wants to ensure that the growth incentive remains strong.*

## The Levy

- Scrapping the levy would require primary legislation however the Government **remains committed to rewarding growth** and is minded to reform the levy.
- The consultation proposes raising the levy threshold so that more growth is kept by more local authorities.
- The consultation is also seeking views on whether the levy should act as a 'cap' on all growth above a certain level.



# Fair Funding review

# MHCLG's purposes for Fair Funding Review

## 1.3.2. The review will:

- **set new baseline funding allocations** for local authorities,
- deliver an **up-to-date assessment of the relative needs of local authorities**. The Government has been clear that there will continue to be redistribution of business rates between local authorities to take account of relative needs; the review will determine what the redistribution should be,
- **examine the relative resources of local authorities**. The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils,
- focus initially on the **services currently funded through the local government finance settlement**, and
- be **developed through close collaboration with local government** to seek views on the right approach. Alongside on-going engagement with the sector and formal consultation, we plan to publish a series of technical papers to ensure that local authorities are well sighted on our progress, as outlined in section 1.5.3 below. This will include careful consideration of transitional arrangements to ensure any changes in funding are introduced in a manageable way.

# What underpins the proposed new allocations of funding between councils

- Relative needs
  - How many people of different ages?
  - What different needs do they have?
- Relative resources
  - How much council tax can each council raise from its local tax base?
  - (How much business rate is available to it?)
- Transitional arrangements
  - How to stop sudden changes from year to year
  - At the point of any reform and then year-on-year

# Needs assessment principles

The government wants the new formula for measuring need to be:

- Transparent
  - which factors used and why
- Up-to-date
  - Most recent statistics
- Sustainable into the future
  - Factors that work today and in the future
- Robust
  - Most objective analysis underpinning results
- Stable
  - Predictable in the medium term, at least

# Main spending drivers

- Population
- Deprivation
- Sparsity
  - Costs higher in rural areas
- 'Area costs'
  - eg high costs in big cities
- Irregularly-located spending
  - eg, flood defences



# Fair Funding review objectives - 1

- Local authorities' capacity to raise council tax locally (their council tax base) will be taken into account in the Fair Funding Review. This constitutes an element of 'resource assessment' alongside the needs assessment. Some account will also be taken of local authorities' revenue from sales, fees and charges
- Demographic change, and differences in the costs of delivering services in different areas, will be taken into account
- The review will aim to make the new system "as far as is practicable, more simple and transparent whilst providing as much discretion as possible to local councils over the use of resources".

## Fair Funding review objectives - 2

- It will “make the link between local circumstances and funding allocations more visible”
- The new system will be based on the most up-to-date data available
- The Government “proposes to base the assessment of local authorities’ relative needs on a relatively small number of forward looking cost drivers with a transparent process for establishing the weightings between them...”.
- This is to ensure a closer link between the indicators used for the needs assessment and the costs incurred in actually providing local services

*[Source: House of Commons Library]*



## 1) Relative needs

### Overview of formulas and cost drivers

Relative Needs Formulas	Cost drivers included in formula	Will an Area Cost Adjustment apply?	Analytical technique
Foundation Formula	<ul style="list-style-type: none"><li>Total population</li></ul>	Yes	Per capita basis
Adult Social Care	<p><u>18-64 formula:</u></p> <ul style="list-style-type: none"><li>Proportion of people aged 16 to 64 with day-to-day activities limited a lot</li><li>Proportion of people aged 16-64 claiming JSA, IS and ESA</li><li>Proportion of people of all ages living in households with one family</li><li>People aged 16-24 inclusive per person aged 16-64 inclusive</li></ul> <p><u>65+ formula:</u></p> <ul style="list-style-type: none"><li>Proportion of older adults entitled to Attendance Allowance</li><li>Proportion of people aged 85 and over with limiting (significantly) condition</li><li>Proportion of people aged 80 and over claiming Pension Credit</li><li>Proportion of households over 65 who are couples</li><li>Number of home owner households (outright ownership only) aged 65 and over</li></ul>	Yes	Multi-level model
Children and Young People's Services	<ul style="list-style-type: none"><li>Initial results in spring 2019</li></ul>	Yes	Multi-level model
Highways Maintenance	<ul style="list-style-type: none"><li>Road length</li><li>Traffic flow</li></ul>	Yes	Expenditure based regression



## 1) Relative needs

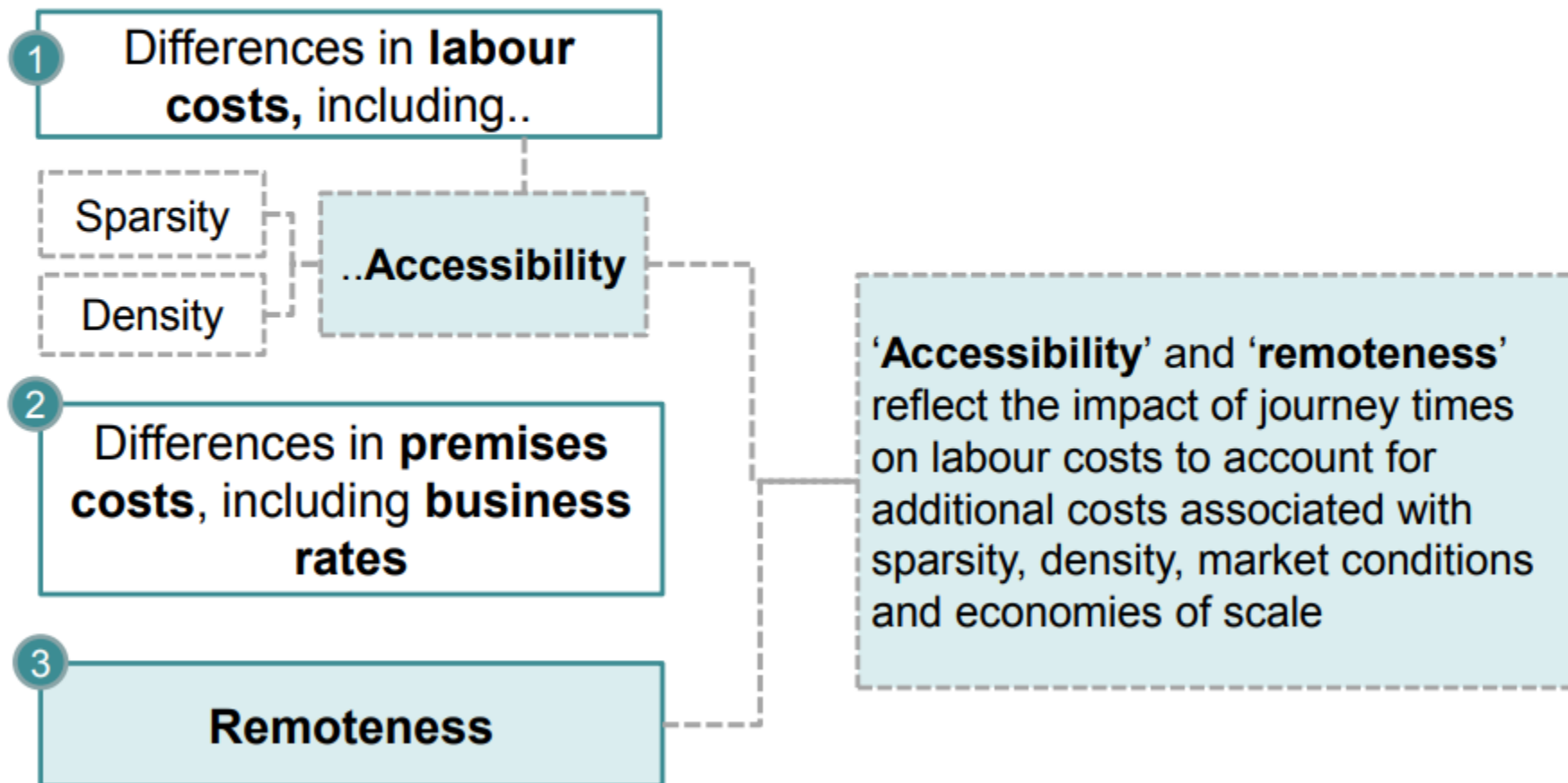
### Overview of formulas and cost drivers

Relative Needs Formulas	Cost drivers included in formula	Will an Area Cost Adjustment apply?	Analytical technique		
Public Health	<ul style="list-style-type: none"><li>Population estimates</li><li>Sub-national population projections by age and sex</li><li>Standardised mortality ratios for those under 75</li><li>Age-gender indices based on service weights by age-group and sex for: nutrition, obesity and physical activity; smoking; non-mandated sexual health services and children's 5-19 public health services</li><li>Modelled costs for substance misuse services by age-group and postcode sector</li><li>Predicted costs for sexual health services by age-group, sex and local authority</li><li>Sparsity adjustment for health visiting services</li></ul>	Yes	Weighted capitation formula; needs-weighting partially based on person-based / multi-level modelling		
Legacy Capital Finance	<ul style="list-style-type: none"><li>Assumed debt repayment</li><li>Assumed interest charges</li></ul>	No	-		
Flood defence and coastal protection	<table><tr><td><u>Flood:</u><ul style="list-style-type: none"><li>Length of ordinary watercourse</li><li>Properties at risk</li><li>Agricultural land at risk</li></ul></td><td><u>Coast:</u><ul style="list-style-type: none"><li>Properties at risk</li><li>Length of coast</li></ul></td></tr></table>	<u>Flood:</u> <ul style="list-style-type: none"><li>Length of ordinary watercourse</li><li>Properties at risk</li><li>Agricultural land at risk</li></ul>	<u>Coast:</u> <ul style="list-style-type: none"><li>Properties at risk</li><li>Length of coast</li></ul>	Yes	Expenditure based regression
<u>Flood:</u> <ul style="list-style-type: none"><li>Length of ordinary watercourse</li><li>Properties at risk</li><li>Agricultural land at risk</li></ul>	<u>Coast:</u> <ul style="list-style-type: none"><li>Properties at risk</li><li>Length of coast</li></ul>				
Fire and Rescue Services	<ul style="list-style-type: none"><li>Total population</li><li>Deprivation</li><li>Proportion of residents aged 65 and over</li></ul>	Yes	Expenditure based regression		



## 1) Relative needs Area Cost Adjustment

### The consultation proposes adjusting for:



### Progress to date..

Oct 2015:	Further business rates retention first announced
Feb 2016:	Review of relative needs and resources announced
Mar 2016:	Joint MHCLG / LGA technical working groups begin work
Jul 2016:	Initial calls for evidence published, over 200 responses to each
Jul 2017:	Technical working groups continue after General Election; further business rates retention revised
Nov 2017:	Data collection and modelling in relation to Children's Services
Dec 2017:	Technical consultations published
Dec 2018:	Further consultations
21 Feb 2019:	Closing date for the current consultations





(aim to implement from April 2020)

**21 February 2019:**

Current consultation closes

**Spring 2019:**

Initial results from Children and Young People's Services research

**Spring 2019:**

Finalise options for needs and resources

**Autumn 2019:**

Set baseline funding allocations and finalise transitional arrangements

**Autumn 2019:**

LGF provisional settlement 2020-21

# Conclusions

- 2019-20 is possibly the last year of real-terms reductions in overall LG spending
- From 2020-21, it seems likely councils will be able to hold overall spending on adult care, children's care and others services at the current real terms level
  - though not in real per capita terms
- Fair Funding Review/NDR re-sets will mildly redistribute spending power
  - County areas may gain, cities may lose
- Devolution is moving slowly ahead
- Brexit still overwhelms Whitehall....every day of every week....



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