Local government’s financial position

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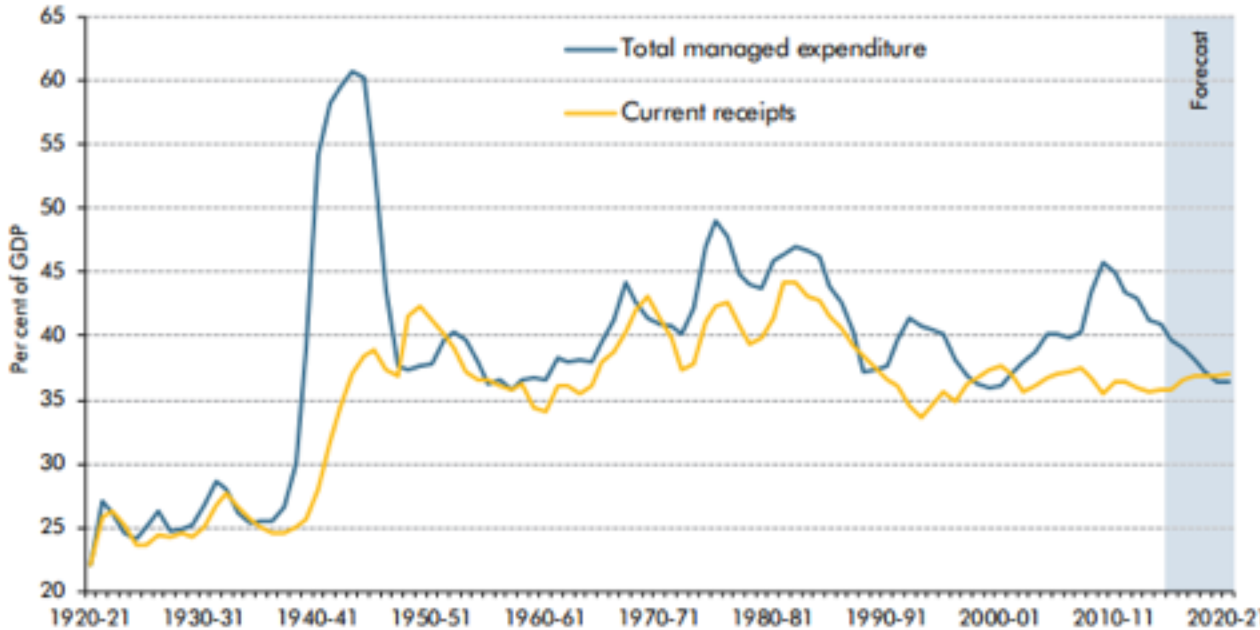
Public sector spending and receipts

Chart 4.10: Total public sector spending and receipts



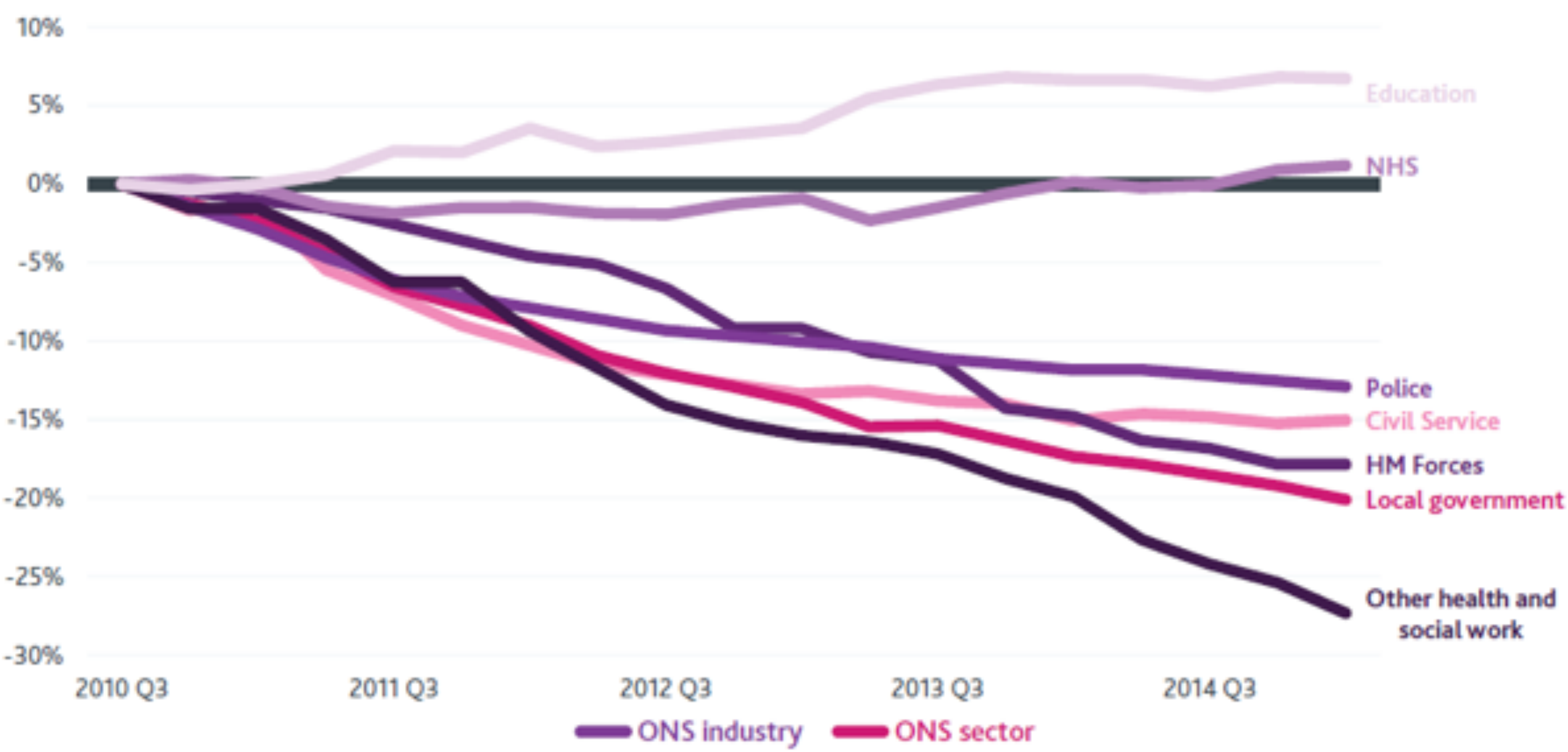
Source: Bank of England, ONS, OBR

Cutting the UK deficit

- A small part of public expenditure has borne most of the effort to reduce the deficit
- ‘Protected’ spending up: NHS, welfare (pensions), schools, international aid, (now also defence and police)
- ‘Unprotected’ services such as local government, Home Office, Justice and transport have been sharply cut
- The General Election did not change any of the underlying factors
    - Indeed, the protected services are now protected to 2020

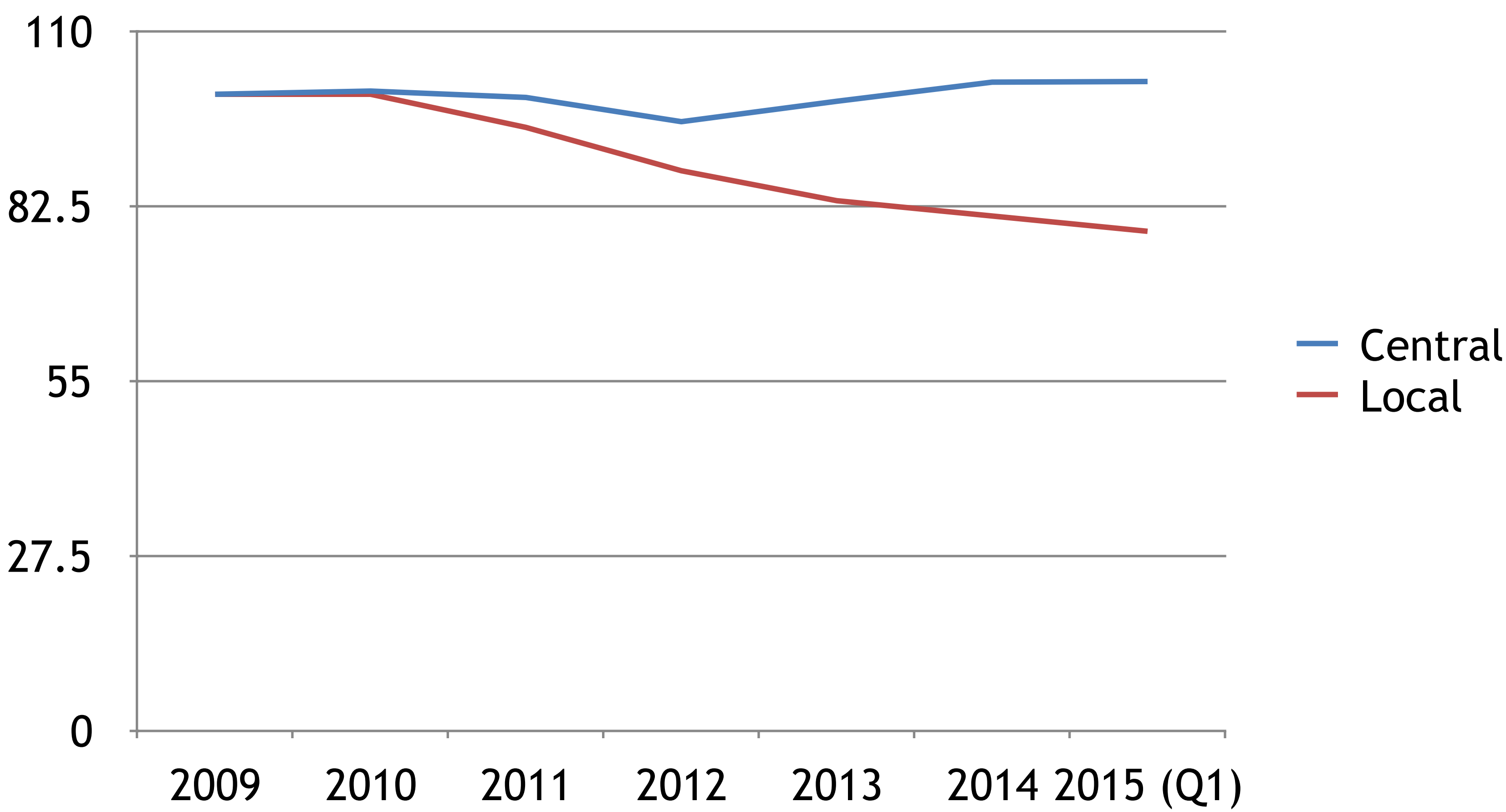
Local services cut fastest since 2010

Change in public sector employment from Spending Review 2010 to March 2015 (selected sectors and industries)



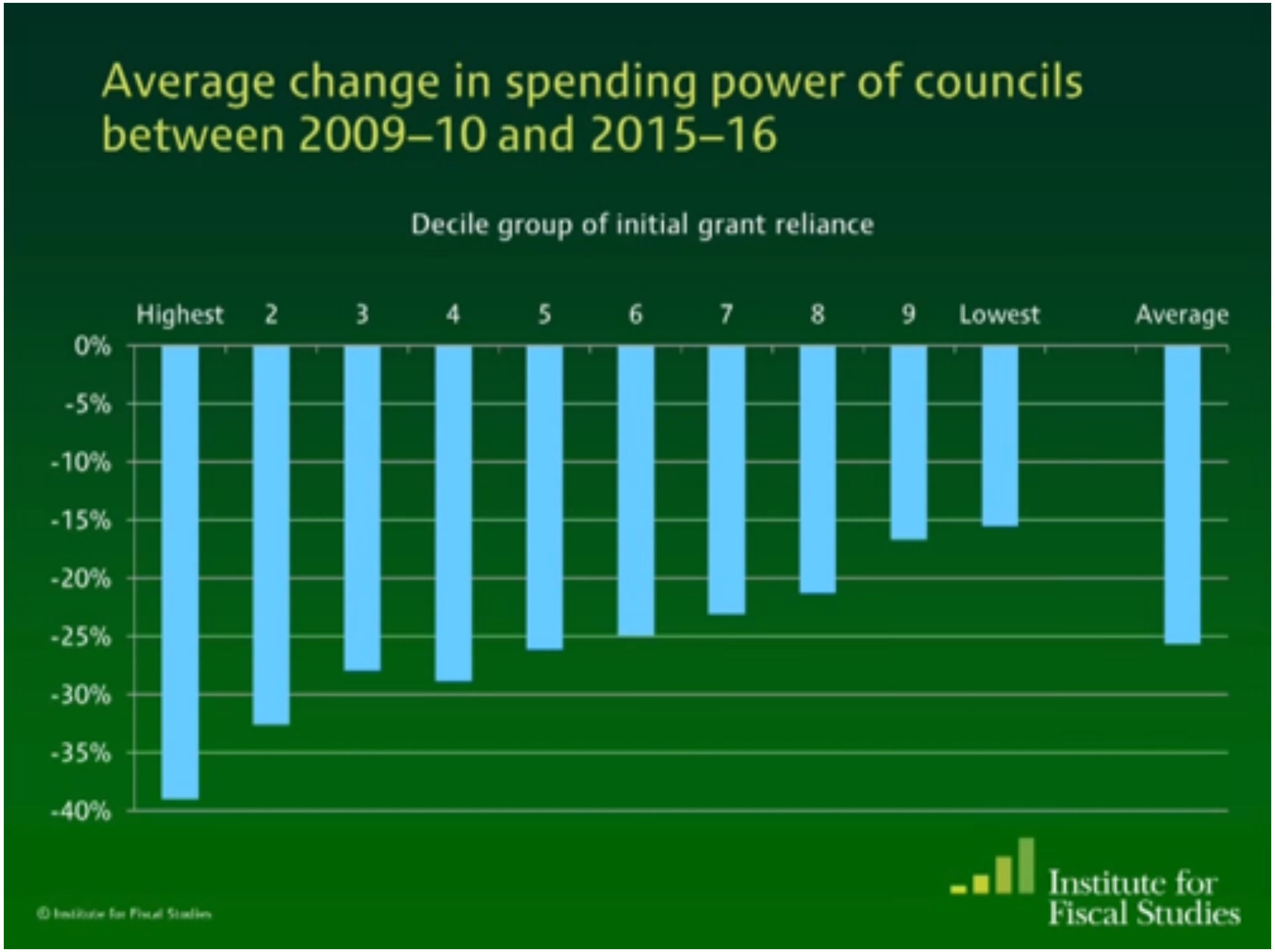
Source: Institute for Government analysis of ONS Public Sector Employment Data, Q3 2010 to Q1 2015. 'Sector' and 'industry' defined by ONS.

Public sector employment (UK)
- Central and local government



Source: *Public Sector Employment*, *Q1 2015*, ONS

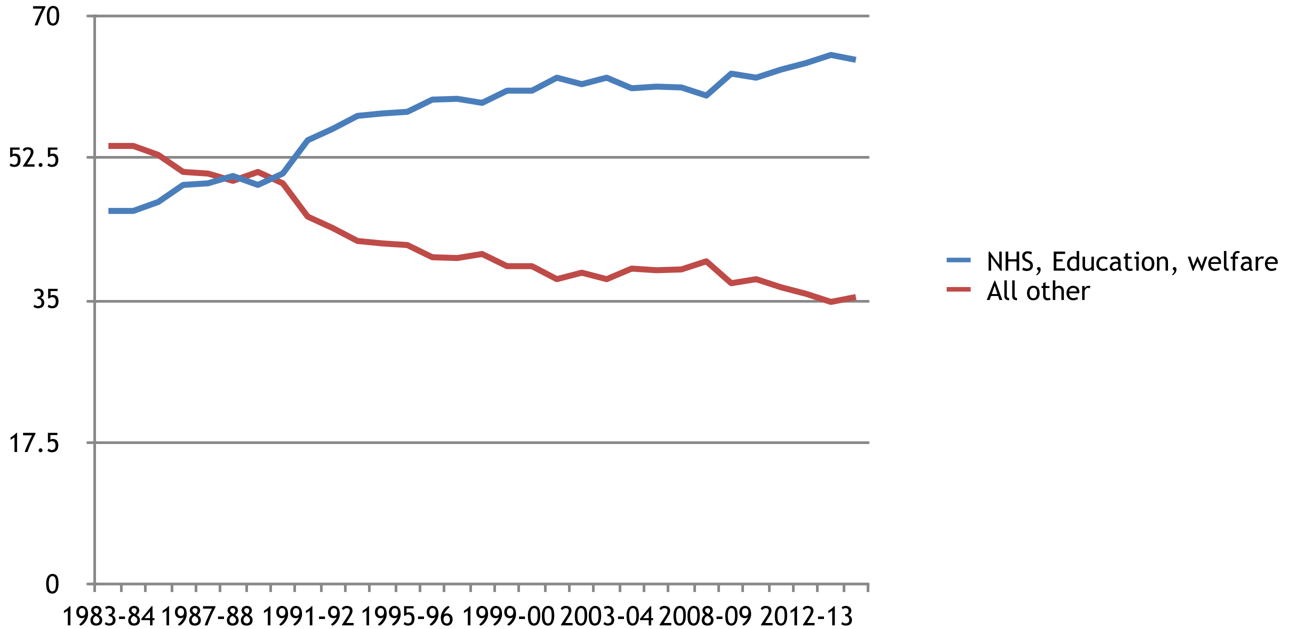
IFS view of changing ‘spending power’



The State is changing: more welfare and less of everything else

- The NHS is increasing within the State, as is welfare and education
  - Defence also now guaranteed 2% of GDP per annum
- Business, Home Office, Justice, Transport and local government all now in long-term decline
- Reducing public expenditure to 36% of GDP will further raise the share of welfare within public expenditure

‘Social welfare’ spending vs the rest
- 1983-84 to 2014-15

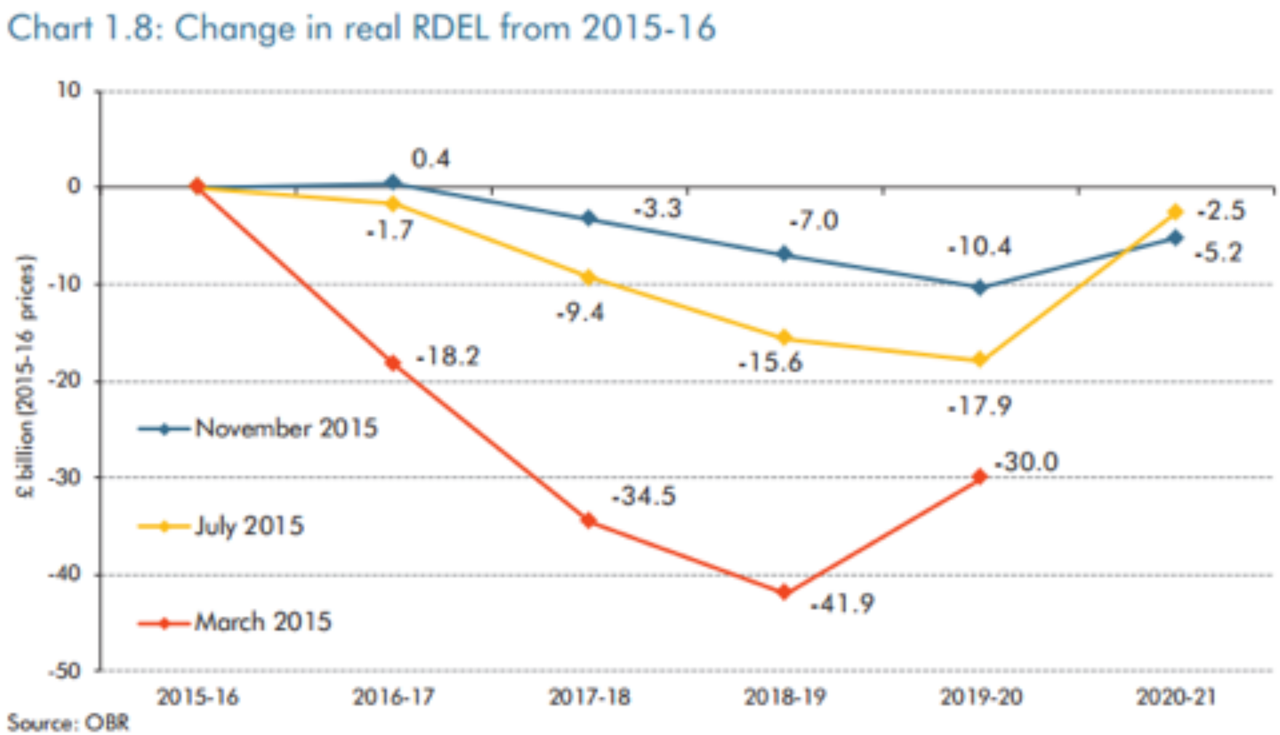


Derived from *Public Expenditure Statistical Analyses 2015*, H M Treasury, Table 4.2
Percentages derived from services’ expenditure as proportion of all public expenditure

Spending Review, 2015

- Confirmed ‘36%’ State, by 2019-20
- Slightly moderated path of spending pressures during the three years 2016-17 to 2018-19
    - See following chart
- From 2019-20, assuming no unexpected downturn, public spending may return to growth in line with GDP
    - But, the NHS, pensions still likely to grow in real terms

Changing Treasury plans
- SR15



Local government expenditure

2016-17 to 2019-20

Local Government

Table 2.17: Local Government

	£ billion					
	Baseline	Plans				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
DCLG Local Government DEL[1]	11.5	9.6	7.4	6.1	5.4	*
Locally financed expenditure[2]	28.8	29.0	31.5	33.6	35.1	*
Local government spending[3]	**40.3**	**38.6**	**38.9**	**39.7**	**40.5**	*

[1] *In this table, Resource DEL excludes depreciation.*

[2] *Treasury/DCLG analysis based on data underlying the OBR's Local Authority Current Expenditure (England) forecast.*

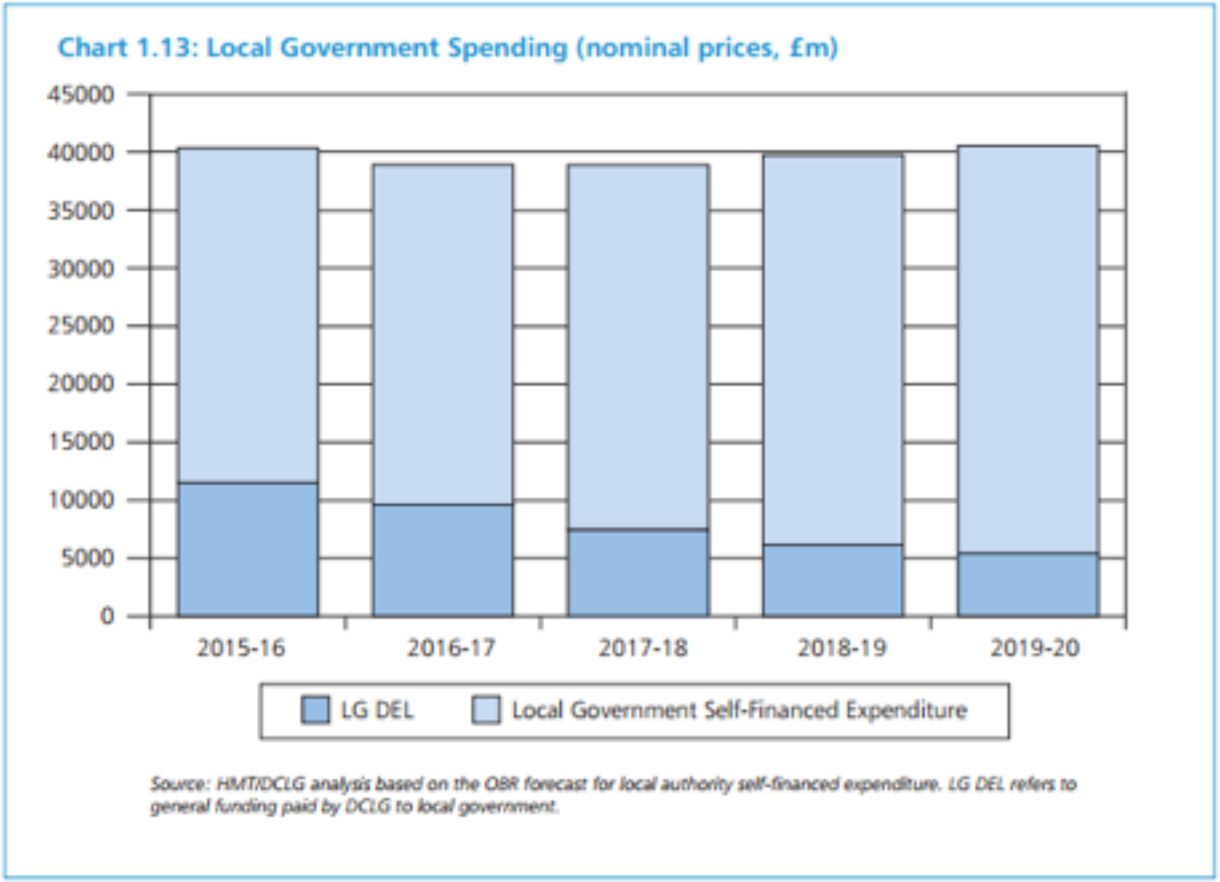
[3] *Does not include the impact of business rate reforms, which the government will consult on shortly.*

2.123 The Local Government (LG) settlement includes:

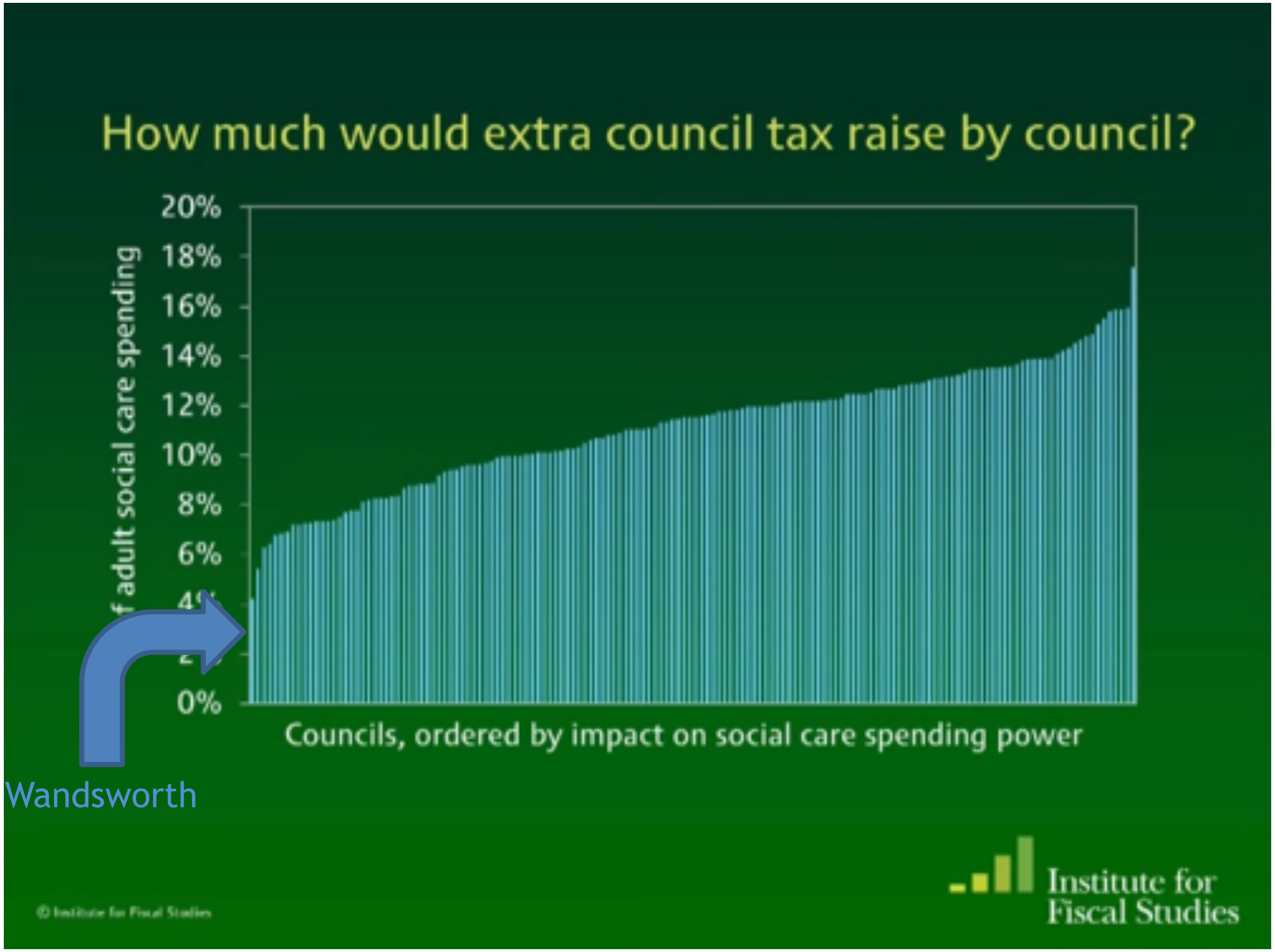
- reductions to local government grant of £6.1 billion by 2019-20, though given forecast increases to other sources of local government income, overall local government spending will be higher in cash terms by 2019-20 than in 2015-16
- £3.5 billion of support for adult social care by 2019-20 through a new social care 'precept' and an expanded Better Care Fund to support health and social care integration
- plans to consult on changes to the local government finance system including to rebalance support to those authorities with social care responsibilities
- support to help local government become more efficient through new flexibility for local authorities to spend receipts from asset sales on reform projects

Local government expenditure plans

2016-17 to 2019-20



Differential impact of social care ‘precept’



Reasons to be cautious

- Assumes 2% plus 2% council tax rise in each year
  - Boroughs have held council tax down in many cases
- New Homes Bonus reforms – loss of revenue to many London boroughs
  - See table to follow
- National Living Wages costs
- Apprenticeship Levy costs
- ‘Ring-fencing’ risks - adult social care
- Population increases
- Schools’ funding reform
- Police funding reform

Population increases…

Table 1: Population change in regions by age group, mid-2012 to mid-2022

			Percentage change over 10 years			
	Mid-2012	**Mid-2022**	**All ages**	**0-15 years old**	**16-64 years old**	**65 and over**
London	8,308,400	9,392,100	13.0	16.0	10.8	21.5
East	5,907,300	6,417,900	8.6	11.3	3.3	24.3
South East	8,724,700	9,407,400	7.8	9.2	2.6	24.7
South West	5,339,600	5,707,400	6.9	9.4	0.8	23.3
East Midlands	4,567,700	4,857,100	6.3	8.1	0.6	25.0
West Midlands	5,642,600	5,954,600	5.5	6.7	1.1	20.3
Yorkshire and The Humber	5,316,700	5,580,800	5.0	6.3	0.4	20.7
North West	7,084,300	7,342,300	3.6	5.7	-1.3	19.6
North East	2,602,300	2,678,200	2.9	4.6	-2.7	21.4
England	53,493,700	57,337,800	7.2	9.2	2.6	22.4

Table source: Office for National Statistics

Detail from the Spending Review

1.242 The Spending Review and Autumn Statement announces a number of measures to help local authorities, with responsibility for adult social care, meet the needs of their population:

- **these authorities will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care.** If fully used it could raise nearly £2 billion a year by 2019-20 – enough to support more than 50,000 older people in care homes or almost 200,000 in their own homes.[92] Including this precept, by 2019-20, the average Band D council tax bill in England will still be lower in real terms than it was in 2010-11, unless higher increases win the explicit support of local people in referenda
- **in addition the Spending Review makes available social care funds of £1.5 billion by 2019-20 for local government, to be included in an improved Better Care Fund. Together with the social care precept, this will mean that local government has access to the funding it needs to increase adult social care spending in real terms by the end of the Parliament. The government will also shortly consult on changes to the local government finance system to rebalance support including to those authorities with social care responsibilities by taking into account the main resources available to councils, including council tax and business rates**
- **the government will also consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years.** This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately

Overall conclusion on the December 2015 settlement

- End of the anti-council tax rise era
- Slightly reduced path of expenditure reductions to 2019-20, but still a cut of 10% to 15% in real terms – or more given cost pressures
- Possible change to grant reduction arrangement from now on
    - Reduction in ‘spending power’ rather than central support
- Many different changes, some of which will cancel out

Devolution of NDR

Devolution

2.131 By the end of the Parliament, local government will retain 100% of business rate revenues. Alongside savings announced elsewhere, this will come with additional responsibilities and empower local authorities to deliver services in a way that is right for their area. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners, TfL's capital projects to local government and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.

Revenue Support Grant

- Will disappear by 2020
- Councils will be funded by council tax, NDR and any receipts from an NDR ‘start-up pool’
- Some authorities will contribute to this ‘pool’
- Details of this new system have yet to be worked out in full
- But it seems likely that annual changes in income will be determined by changes in council tax and NDR bases
    - These, in turn, subject to much intervention
    - Uncertain incentive effects

Local government finance after 2019-20

Council tax:	£2.75bn
NDR (100% retained):	£4.10bn
NDR (Total paid):	*c£6.25bn*

London's new local tax yield:

CT+ NDR (retained):	*c£6.85bn*
CT+NDR (paid):	*c£9.00bn*

London will need to decide

- Council tax + NDR will bring in a bigger sum than overall London local spending
- Service funding to be transferred to London
    - Public health?
    - TfL grant?
    - Police grant?
    - Some benefits?
- GLA (inc MPS/MOPAC and TfL) and boroughs will have to decide what to propose….

Local government's changing role

- 'economic and town planner'

- **Increasingly, all additional council resources will depend on growing the size of the council tax and business rate base**
    - New Homes Bonus (reformed)
        - 4 years not 6; no NHB if delivered 'on appeal'; to take account of circumstances?
    - Non-Domestic rate retention:
- This change will increasingly require planning decisions to include financial and economic considerations

Local government's changing role
- economic and town planner'

- Development control is not new, but the drift of 'planning' from being mostly about location and/or aesthetics to being part of an area's economic future is having a major impact on traditional planning
- Increasingly, all additional council resources will depend on growing the size of the council tax and business rate base
    - New Homes Bonus
    - Non-Domestic rate retention
- This change will increasingly require planning decisions to include financial and economic considerations

Local government's changing role
- managing a complex society'

- Planning, eg, delivering more housing where the public is both 'for' and 'against' such development
- Licensing, especially of bars and clubs/night-time
- Public health: obesity, smoking, lifestyle etc
- Social care, especially for children in challenging family circumstances
- LG's schools role may have declined, but councils are responsible for school absence/truancy
- 'Prevent' policy to counter extremism
    - Councils given legal duties to be aware of extremism risks and to protect individuals
- Asylum system
    - Councils required to manage Whitehall decisions about the distribution of asylum seekers

Local government's changing role
- a 'prefect' role, increasingly?

- As society becomes more complex and demands on central government to 'do something' intensify, councils are increasingly seen as local agents to be required to act
- Ministers are aware of the risk (to them) of not being seen to take action, so devolve the duty to make difficult interventions to local government

The future

- The UK is moving towards a position where public expenditure will be 36% of GDP, well below the average of c42-43%
- Thus:
    - Continuing need to reduce expectations of the local State (also demand for provision)
    - More contracting-out, joint provision and even charging for services
- By 2020, some return to year-on-year stability in revenue funding, but from base 40% to 50% smaller than in 2010

Local government's financial position

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