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The 2020 Spending Review and the outlook for local government funding: what about district councils?

David Phillips, Associate Director, IFS

District Councils Network Conference 2020

7th February 2020

Missing out in 2020-21?

Settlement highlights 4.3% real-terms increase in funding

- Large bulk of this is for upper-tier and single-tier authorities with responsibility for social care services

Grant funding and council tax rates for districts will increase roughly in line with inflation

- Real-terms growth will have to come from council tax *base* growth, where govt. is assuming further calls in cost of CTS schemes…
- … And business rates, where some areas at least will lose out from loss of pilot status
- But still by far the best settlement in a decade for districts too

Plans for 2021-22 & beyond (I)

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Conservative manifesto pledged little additional funding for councils

- Maintain new £1 billion social care grant for duration of parliament
- Extra £0.5 billion a year for road maintenance ('potholes')
- Both would go to upper-tier and single-tier authorities

Spending Review 2020

- Overall spending envelope set in Spring Budget?
- Departmental allocations (inc. MHCLG) by time of Autumn Budget

Plans for 2021-22 & beyond (II)

Consulting on this year, implementing next:

Business Rates Retention

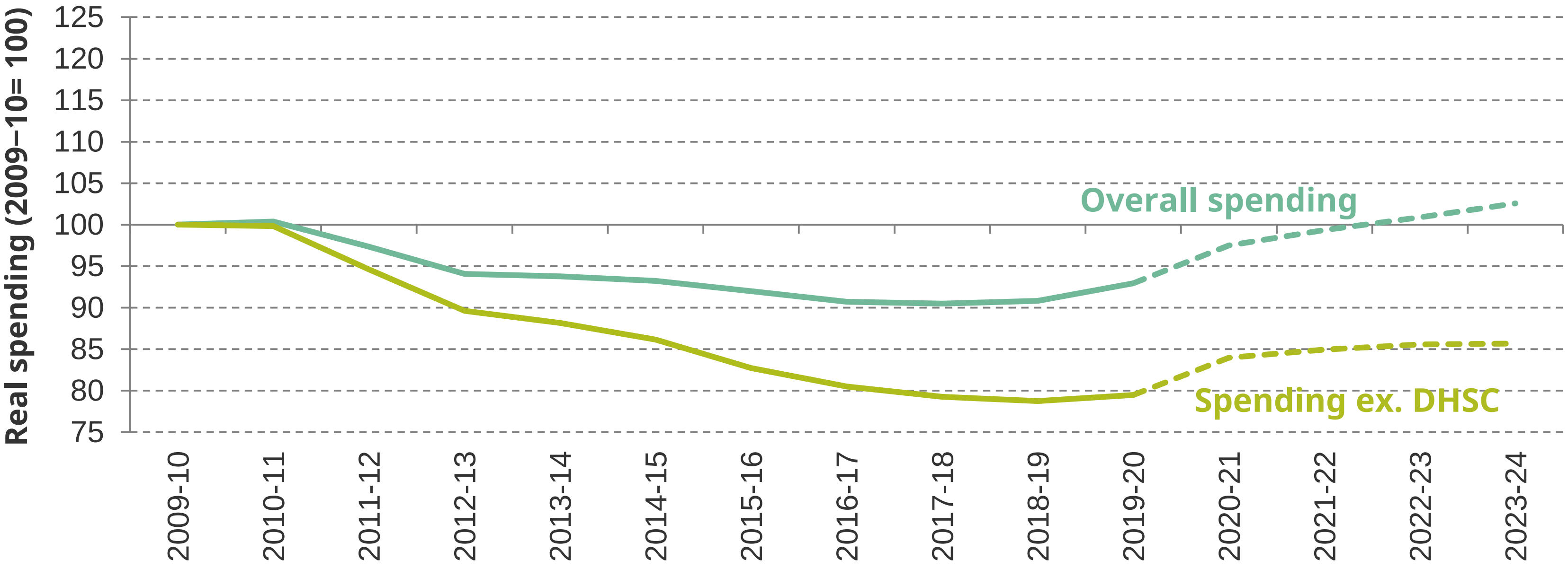
- Counties likely to receive most from increase from 50% to 75% retention

Fair Funding Review

- Shire districts likely to get a bigger share of "Foundation Formula" funding than current EPCS formula
- But weight in overall funding allocation matters; and areas with big tax bases (e.g. South East) likely to lose from resource equalisation

New Homes Bonus: likely to be phased out

Overall day-to-day spending set to exceed 2010 levels by 2022-23, but outside health still down 15%



Note: All figures denote public sector current expenditure in resource DEL (PSCE in RDEL). Government spending plans do not exist beyond 2020−21: we assume that in the absence of the election, the government would have frozen all spending outside of the NHS and schools in England in real terms between 2020−21 and 2023−24; this is consistent with the Conservative manifesto.

Capital spending – potential for big increases

Conservative manifesto pledged to borrow £100 billion more than previously planned over this parliament to boost capital spending

- Includes money for potholes, flood defence, social housing energy efficiency, 'intra-city' transport etc.

But most of the extra capital spend is still to be allocated

- Strong hints that impact on geographical inequalities will be a more important determinant of funding allocation in future
- How much will come to councils as part of devolution plans? How much to shire areas relative to metropolitan and more urban areas?

How could these plans change?

Over the last four years, government has consistently topped up spending

- Seems unlikely will actually want to freeze spending outside health, schools
- But little leeway in new (looser) fiscal rules, so will it bust them or put up taxes (where it has also hedged itself in)?

The B word

- Still a risk of no-deal Brexit
- If this takes place likely short-term spending boost to support economy, but in long-run probably mean more spending cuts / tax rises

Positive or negative shocks to economic outlook

- Recently spent windfalls but borrowed to cover shortfalls – risky?

What about local government in particular?

Revenue support grant funding due to be abolished from 2021-22, so won't local govt be financially self-sufficient?

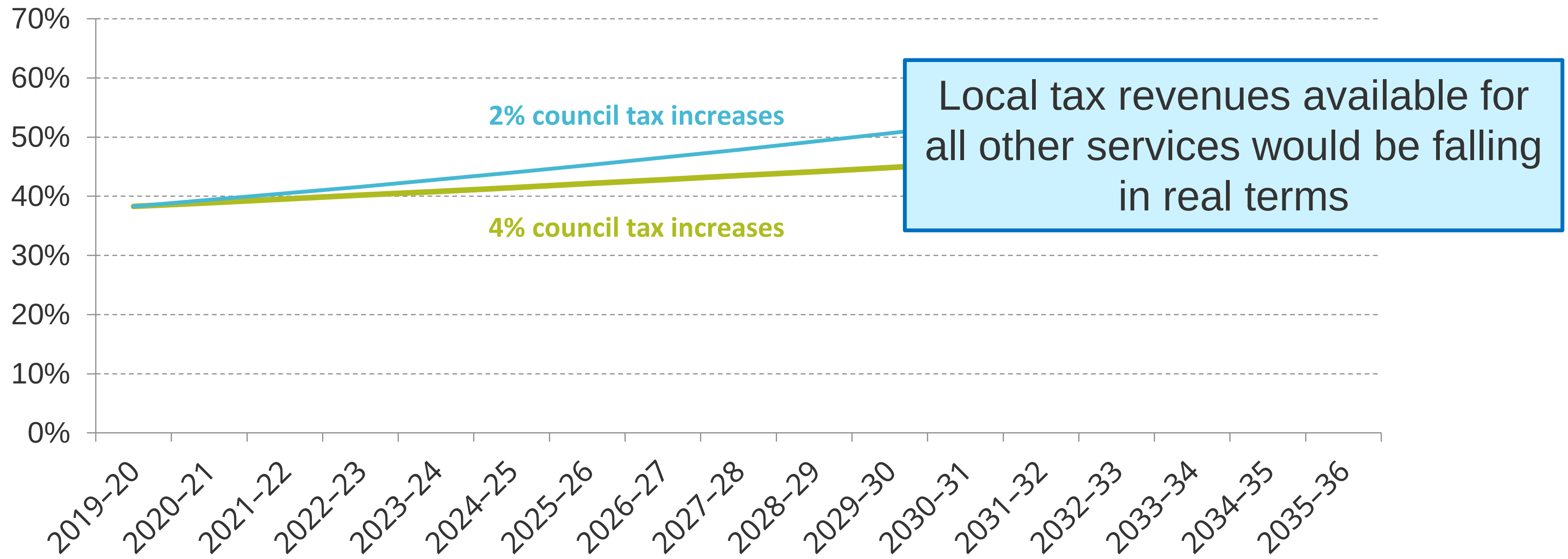
Govt will still have levers to give to / take from councils

- Choice of retention rate and grants/responsibilities to be rolled in
- Net tariff or top-up to system to remove/add funding
- Level of any remaining grants, and whether other revenues devolved

Councils will face a range of spending pressures

- Ageing population and increasing needs; rising labour and other costs

Under OBR central projection, adult social care will take up growing share of local taxes…



Note: Assumes adult social care costs increase by 3.4% a year in real terms – in line with OBR central projection

So what to do?

Improve productivity performance significantly or accept councils can do (even) less

Raise more revenues either nationally or locally

Raise nationally if prioritise redistribution and consistency

Raise locally if prioritise incentives and discretion

Tax devolution options

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100% business rates retention would transfer £6 billion to councils

Administratively straightforward

But narrow and unbuoyant tax base

1p flat-rate local income tax would raise about £6 billion for councils

Administratively more complex – though less so than VAT, Corporation Tax

But a range of desirable properties – buoyancy, accountability, incentives

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IFSBriefing

Taking control: which taxes could be devolved to English local government?

In recent years, there has been renewed interest in the question of tax devolution to local government:

- The past decade has seen a number of changes to how local government is funded, including the introduction of business rates retention. Broadly, these changes have focused on giving councils more control over their funding and providing stronger financial incentives to councils to drive local growth and development. Devolution of additional tax revenues and powers could be seen as a natural extension of this agenda.
- After years of cuts, councils in England face serious short-term funding pressures. In the longer term the costs of funding social care are likely to increase faster than the revenues councils receive from council tax and business rates. While these issues could be addressed by using national taxation to increase the grant-funding given to councils, devolution of additional tax revenues and powers could also play a role.

This note summarises a new IFS report on the scope for tax devolution to English local government. It sets out criteria which can be used to assess

Summary

Plans imply real-terms freeze for spending outside health & schools

- Recent history suggests government likely to top these up
- But sustainability depends on willingness to put up taxes and economic performance – and still a risk of no-deal Brexit at end of the year

Will government continue to effectively cap districts council tax increases at inflation?

- Districts very reliant on tax base growth and generating investment and commercial income

Plans for devolution and ‘levelling-up’ – will this bring more powers and capital funding to councils, and specifically to shire areas?

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