Is austerity over? The 2020 Spending Review and the outlook for local government funding

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LGA Annual Local Government Finance Conference 2020
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Sizeable funding boost in 2020-21

Settlement highlights 4.3% real-terms increase in funding

• Additional £1.3 billion from grant and BRR baseline funding
• Additional £1.6 billion from council tax

Much more generous than any settlement in last decade, but

- Ending of most business rates retention pilots
- Assumes tax base growth of 1.9%, which would require further significant falls in cost of Council Tax Support schemes
- Will undo only a small part of the funding cut councils have seen over last decade
Extra funding could undo up to $\frac{1}{5}$th of peak-to-trough fall in spending per person
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Extra funding could undo up to 1/5\textsuperscript{th} of peak-to-trough fall in spending per person

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Plans for 2021-22 & beyond (I)

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’) 

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)

Business Rates Retention
- Consultation on detailed proposals later this year, implementing next

Fair Funding
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New Homes Bonus to be phased out

English devolution White Paper later this year

Social Care plans – “build a cross party consensus”
- Exemption of main residence from means test is big unfunded pledge
Overall day-to-day spending set to exceed 2010 levels by 2022-23, but outside health still down 15%
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 (northern, midlands, coastal) councils as part of devolution plans?
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?

75% rates retention due in 2021-22

- Stronger local financial incentives for property development/growth
- A more financially self-sufficient local government sector?

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

- 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...

Local tax revenues available for all other services would be falling in real terms

Note: Assumes adult social care costs increase by 3.4% a year in real terms – in line with OBR central projection
Billions in additional grants likely needed to top up existing local taxes

In order to stop spending on other services falling as % national income:

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

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
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

Continued above-inflation increases in council tax would mean councils budgets continuing to increase in 2021-22 and beyond

• But unlikely by enough to meet rising costs/demands of services
• Reduce services? Keep & increase grant funding or devolve additional taxes?

Plans for devolution and social care reform must be consistent with funding levels and system – opportunity for coherent package rather than piecemeal policymaking
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