



LGA annual finance
conference

13/01/2022

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Spending Review 2021 and the wider funding outlook

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Economic
and Social
Research Council

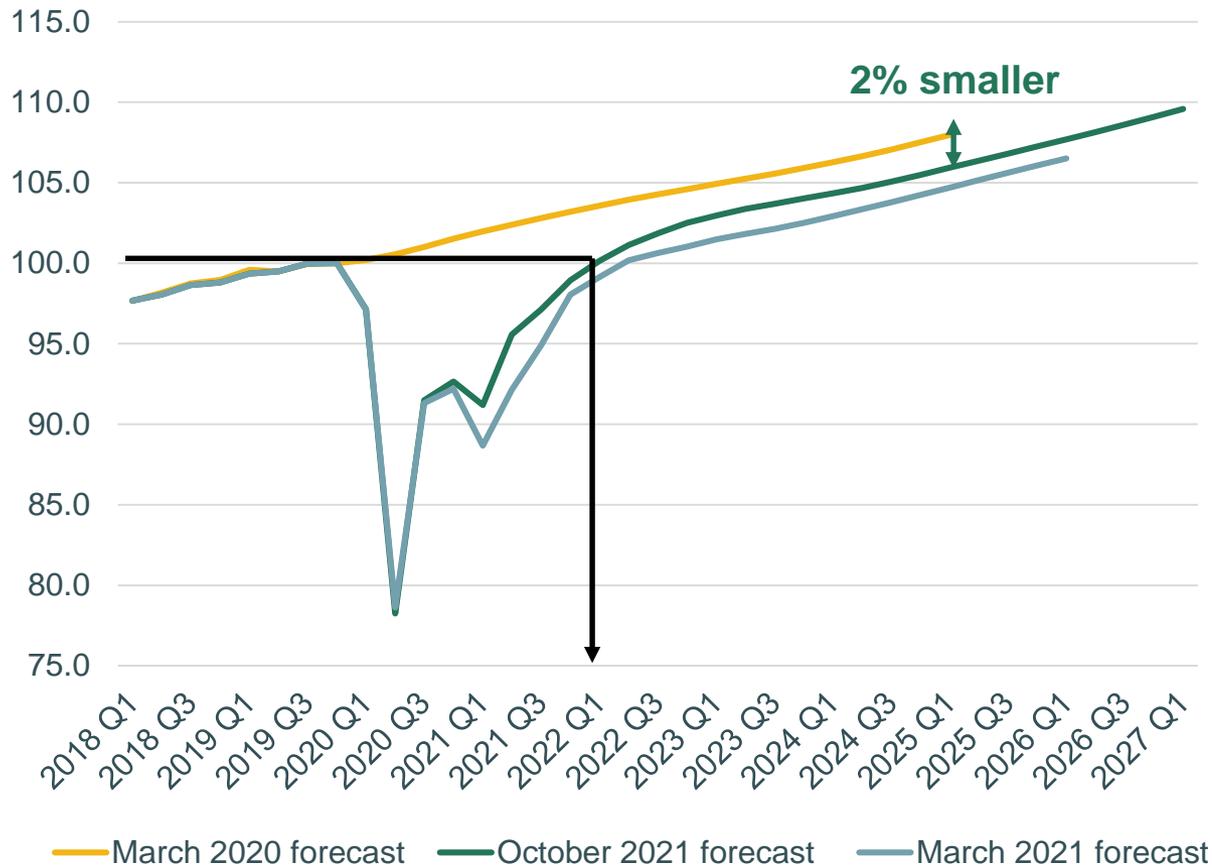
Coming up



- Economic and public spending overview
 - Digging beneath the headline numbers
- Local government funding levels
 - During the pandemic and beyond
- Local government funding reform
 - Vital but challenging

Economic outlook

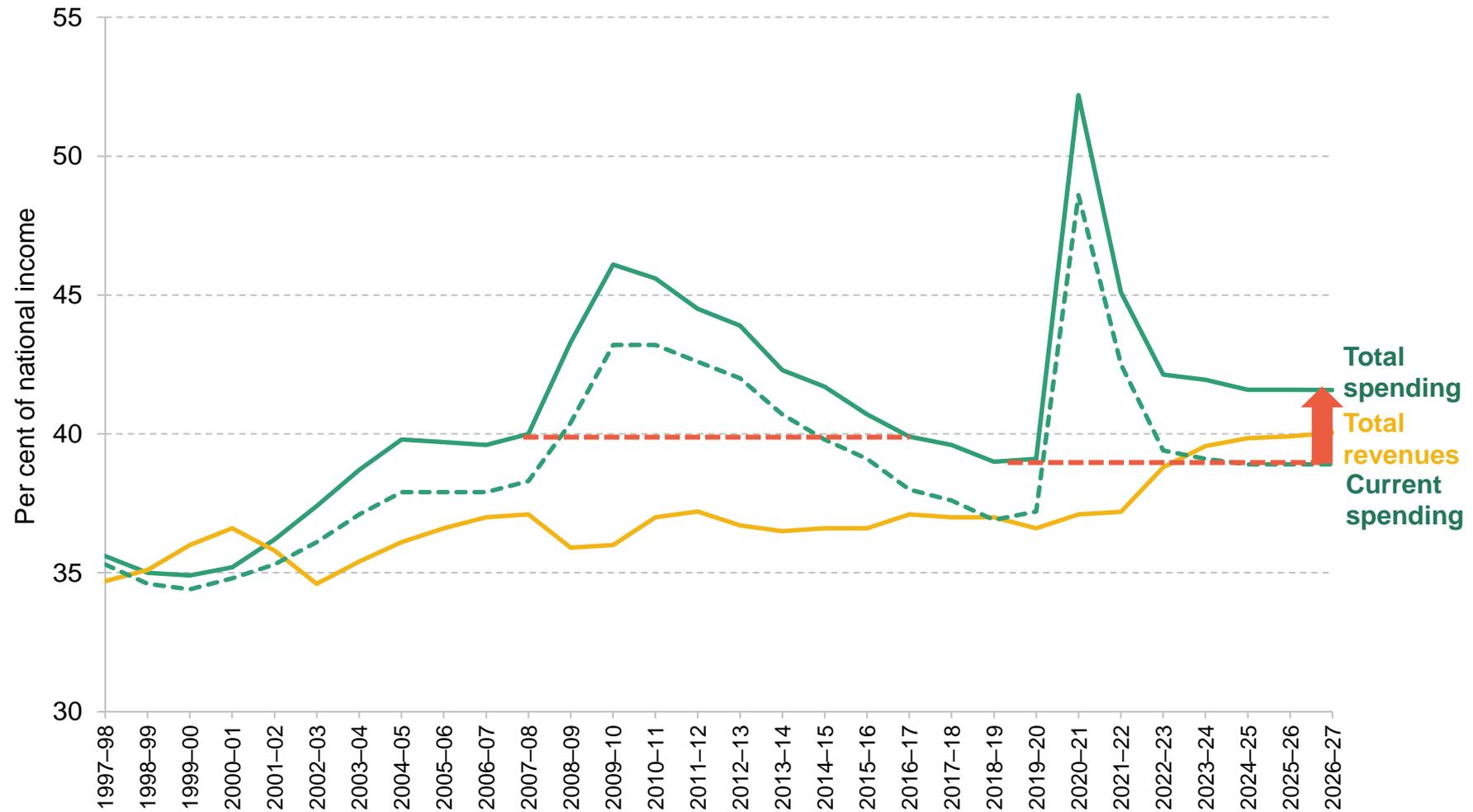
Real GDP, outturn (to 2021 Q2) and forecast



- OBR forecast economy to return to pre-pandemic level by Q1 2022, and grow 6% this year
- Latest independent forecasts a little less optimistic
- OBR forecast CPI inflation to peak at 4.4% in Q2 2022.
- Already 5.1% in November and BoE expect it to be 6% by April

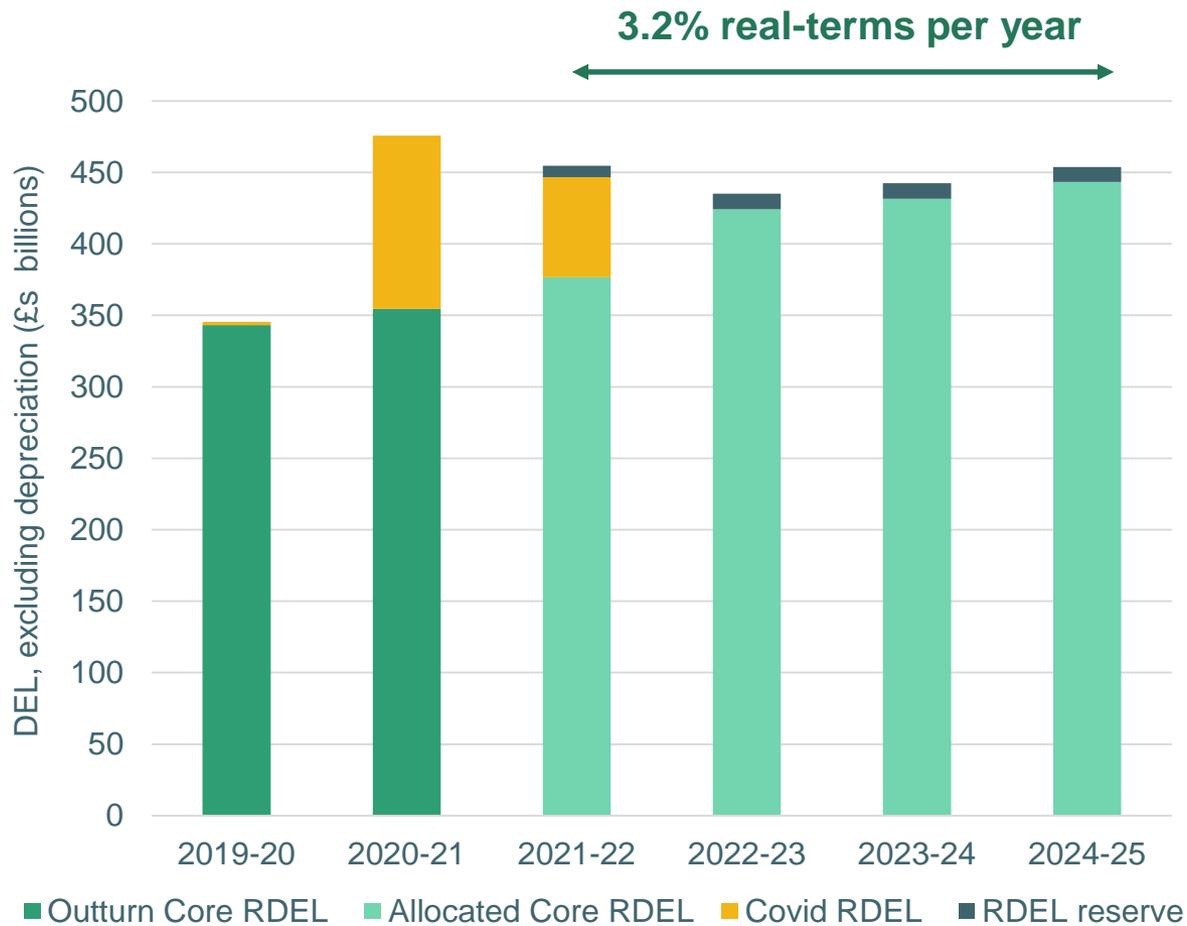
Source: OBR *Economic and Fiscal Outlook*, October 2021.

A bigger state post pandemic



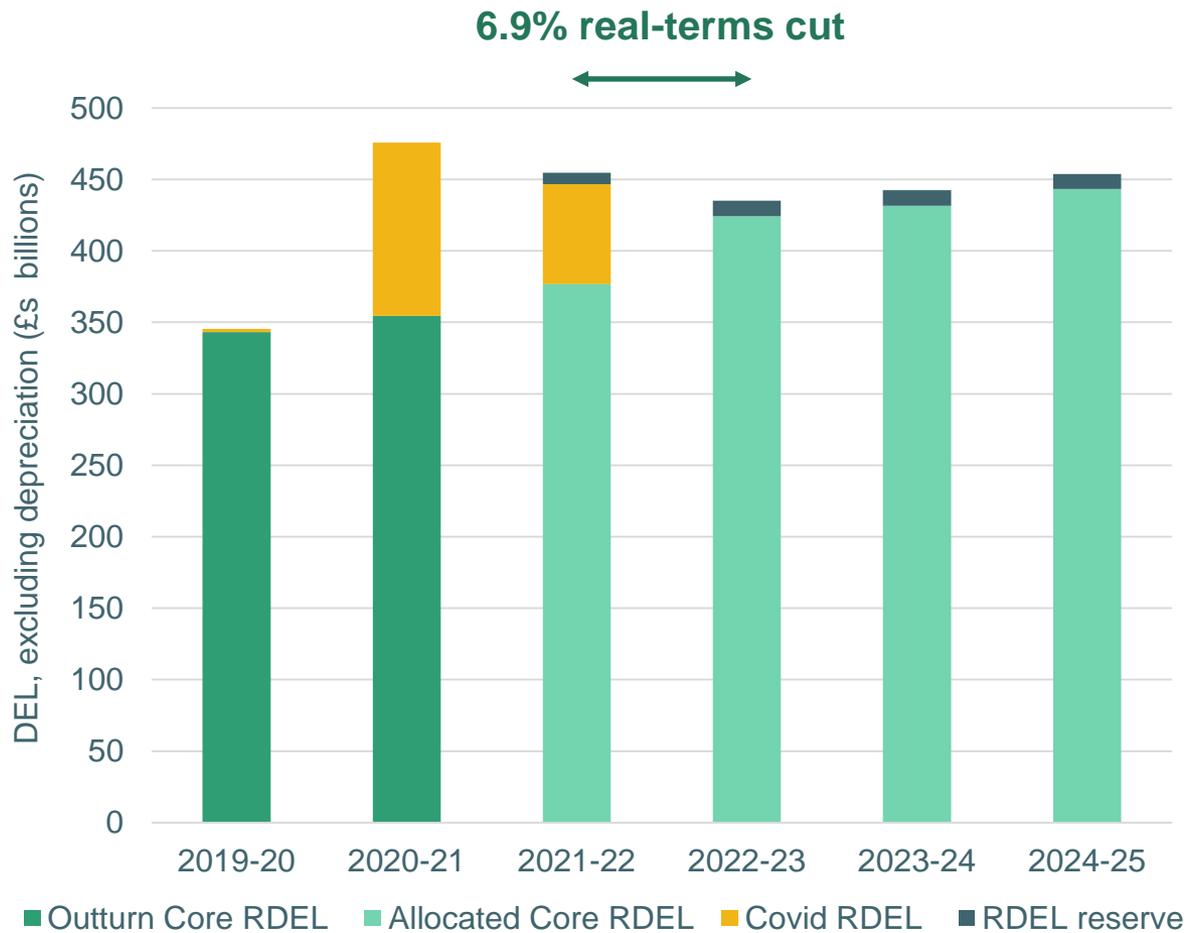
Source: OBR *Economic and Fiscal Outlook*, October 2021.

Public spending outlook



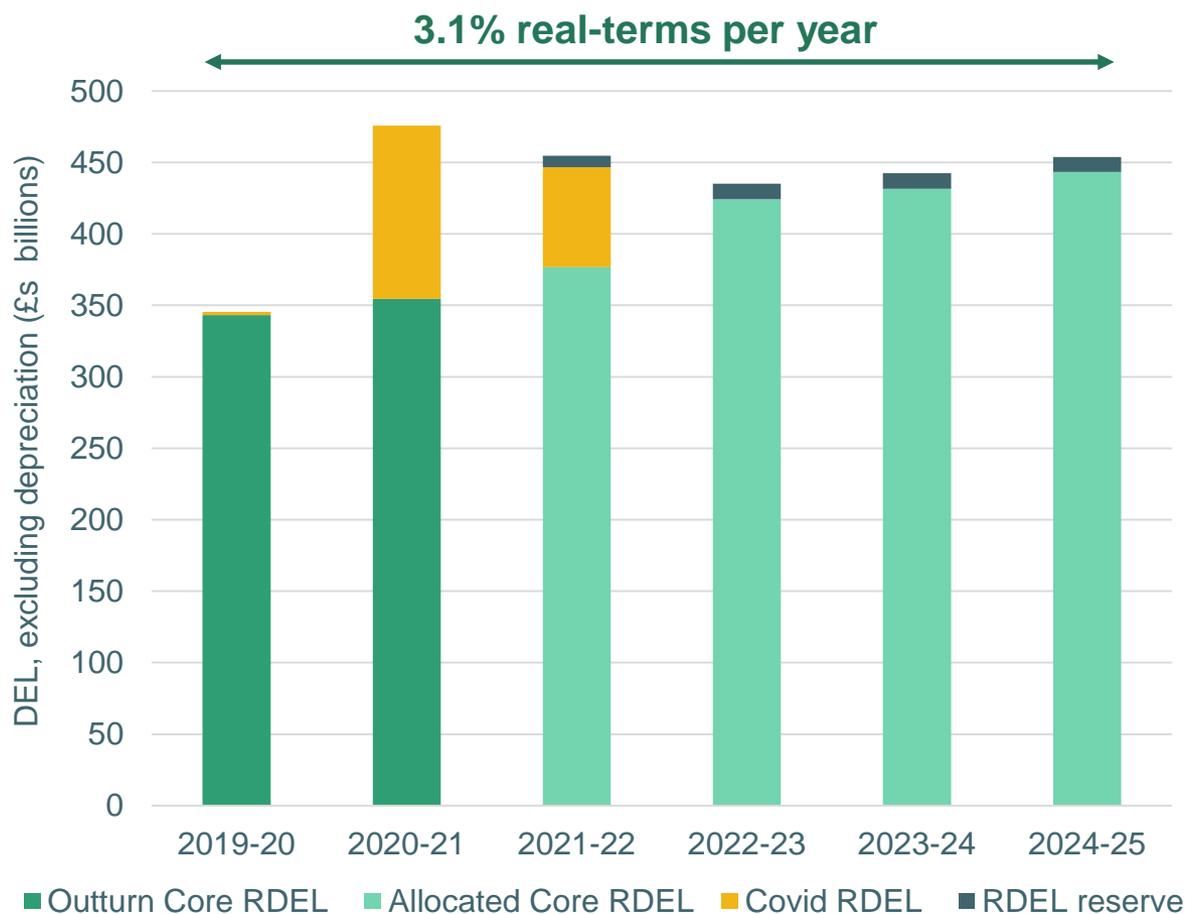
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Public spending outlook



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Public spending outlook



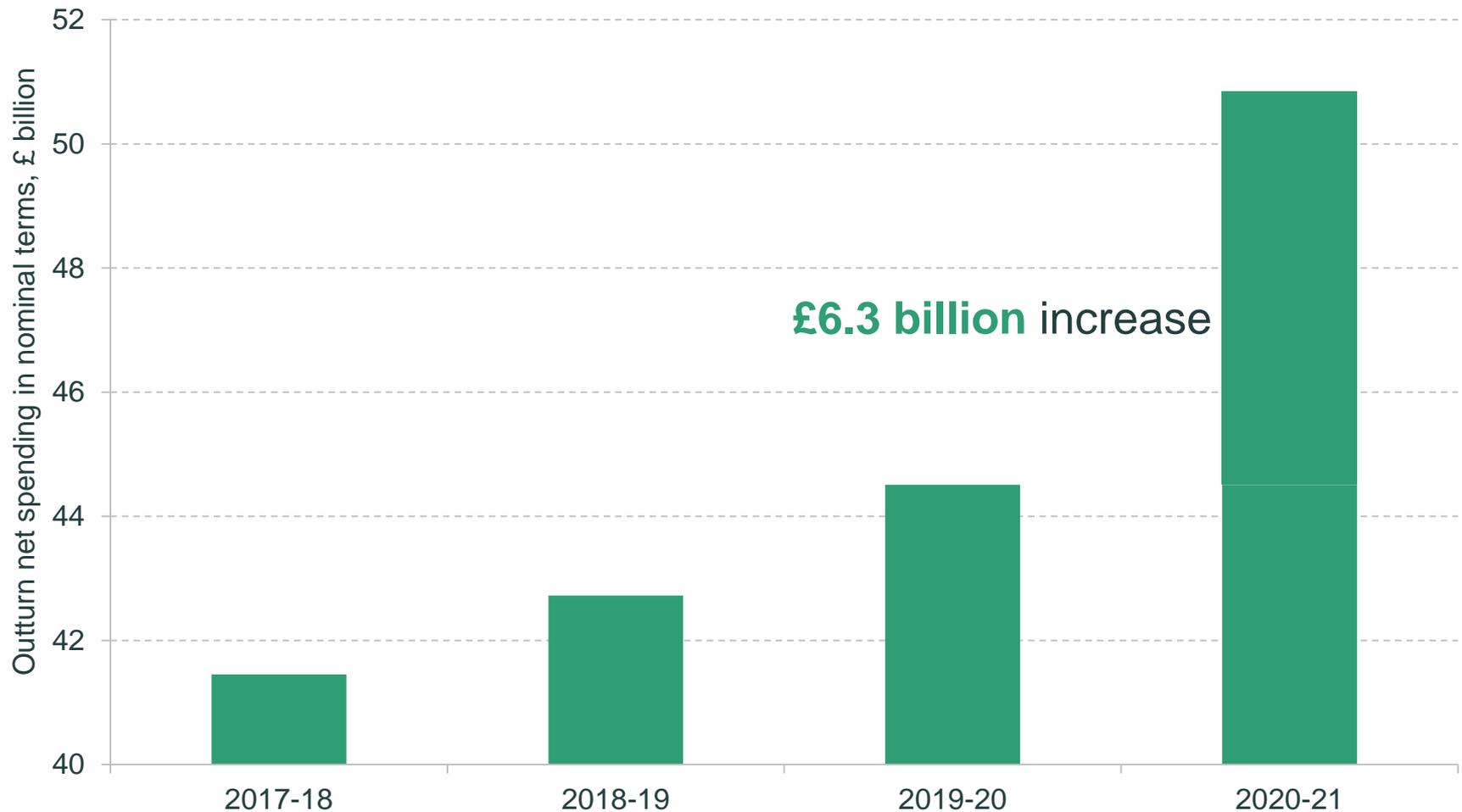
Source: OBR *Economic and Fiscal Outlook*, October 2021.

- Core resource funding for almost all services set to increase.
- Austerity over but not reversed.
- Total resource DEL up 8% between 2009-10 and 2024-25.
 - Health spend set to be 42% higher.
 - Spend on other departments set to be 8% lower.



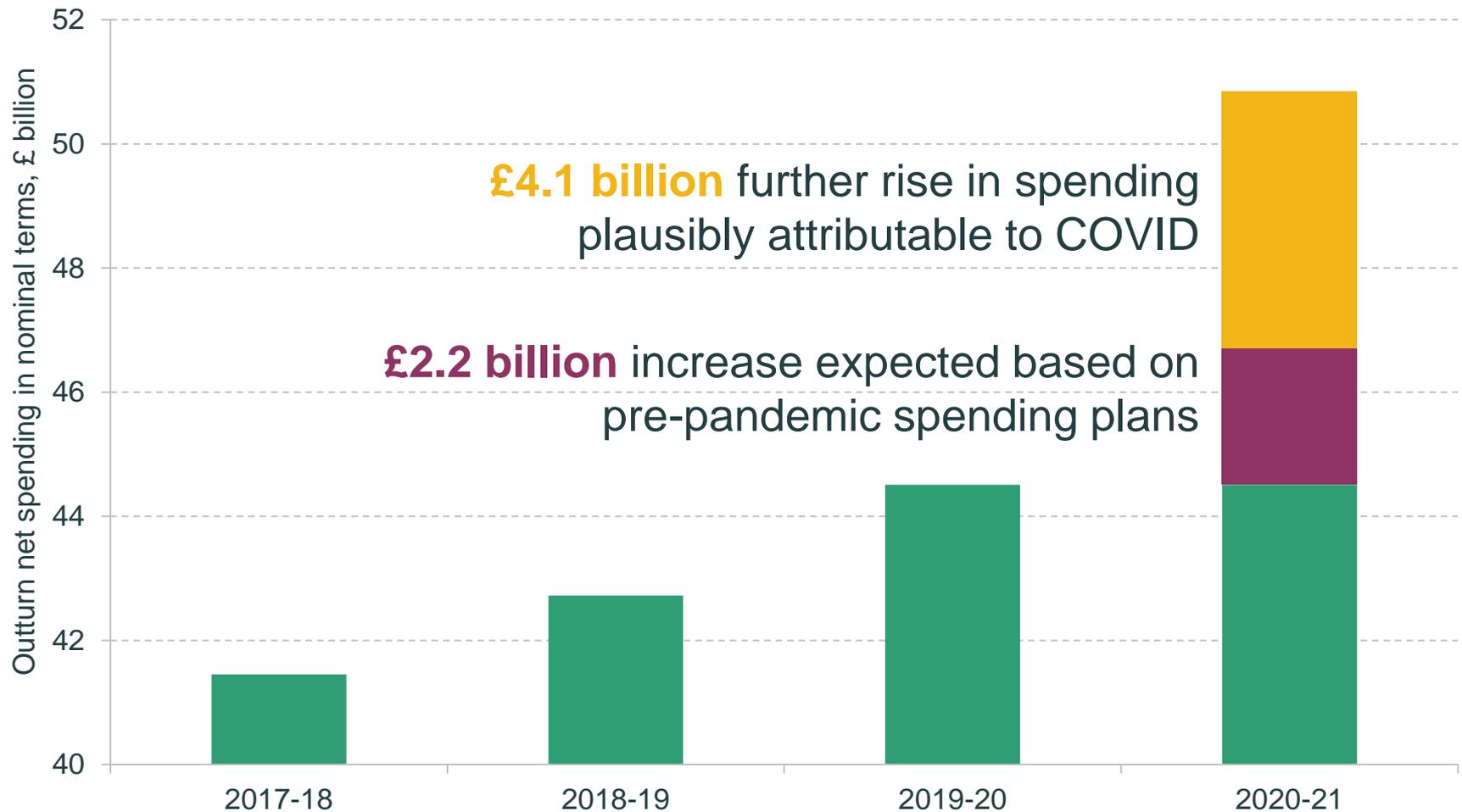
Local government funding

Net spending on non-education services up £6.3bn in 2020-21



Source: Table 2.3, 'Looking back to look forwards: what can we learn from data on the impacts of COVID-19 on councils in 2020-21?', Ogden, K. and Phillips, D., IFS Briefing Note 337.

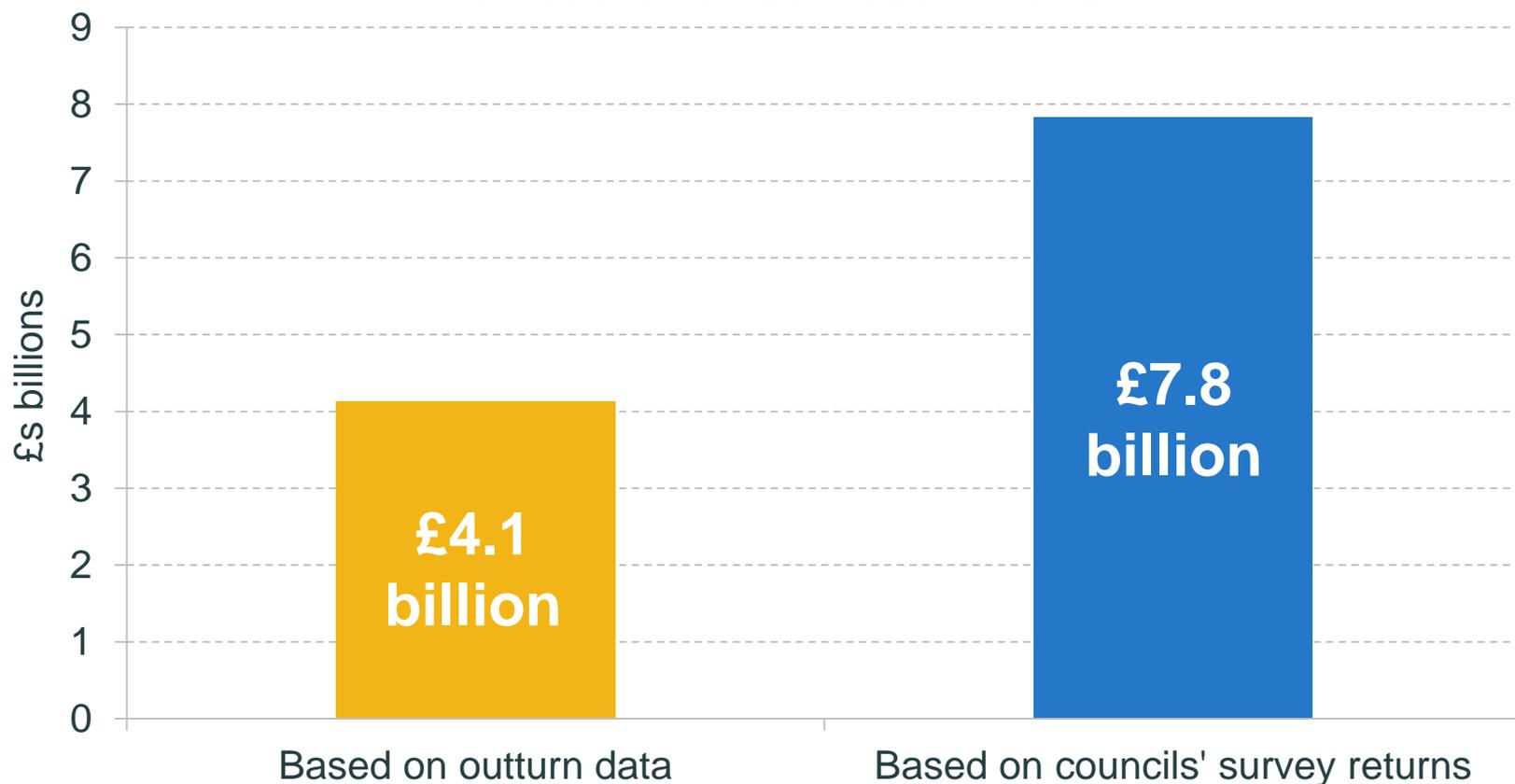
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Increase substantially less than previously estimated though

Estimated impact of COVID on councils' net spending on non-education services in 2020-21

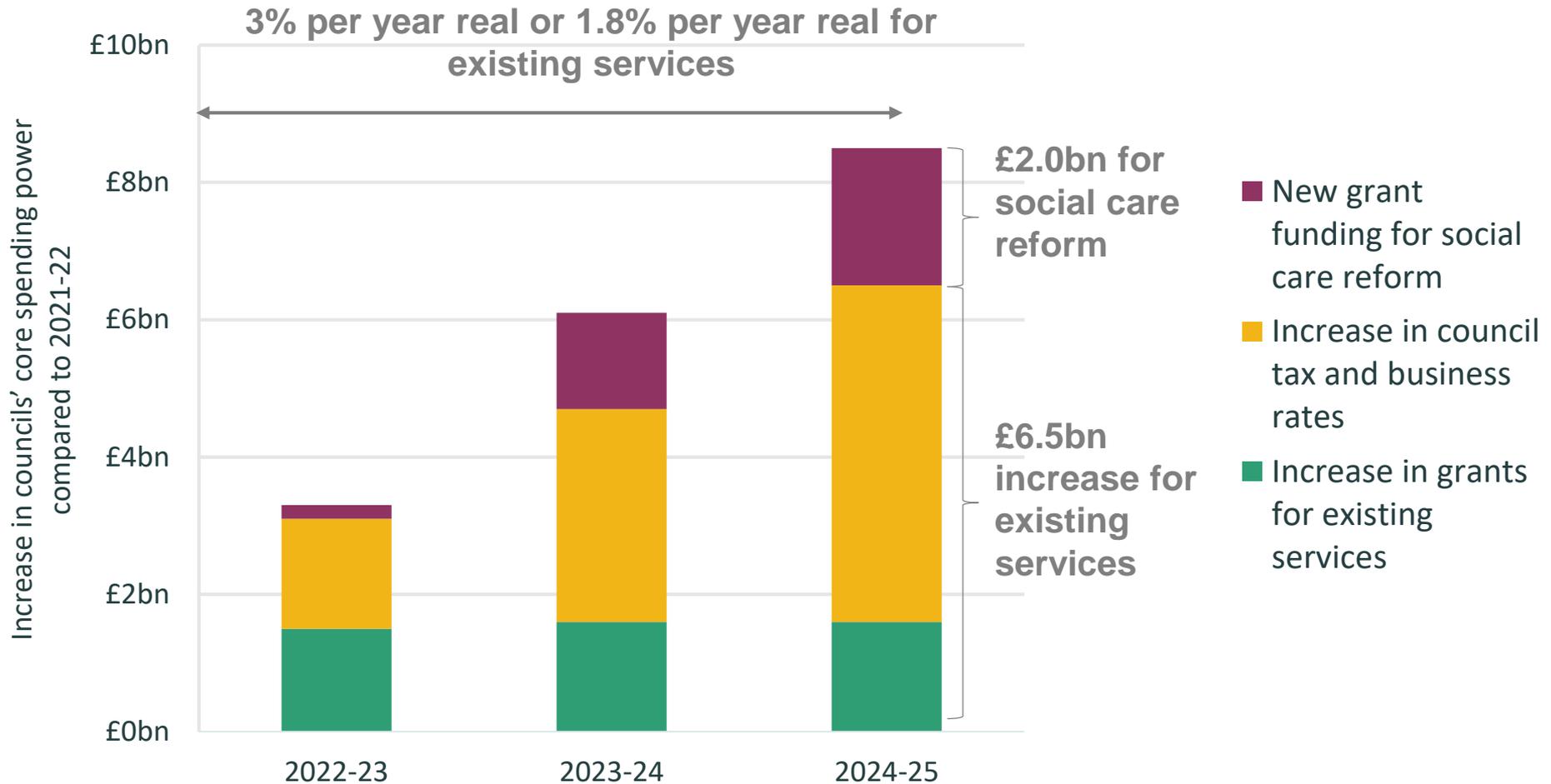


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Lessons from 2020-21 outturns

- English councils, overall, received billions more in additional funding than their spending increased by in 2020-21
 - Reserves increased, on average
 - Not unreasonable for government to not fully compensate for forecast additional costs in 2021-22
- But COVID-19 impacts varied significantly across councils
 - One-in-five saw net spending increase by more than one-third
 - Income losses only partially compensated for, so those largely impacted via income side less protected
- Different approaches to compensation worth considering if a similar crisis in future

SR2021 and council funding



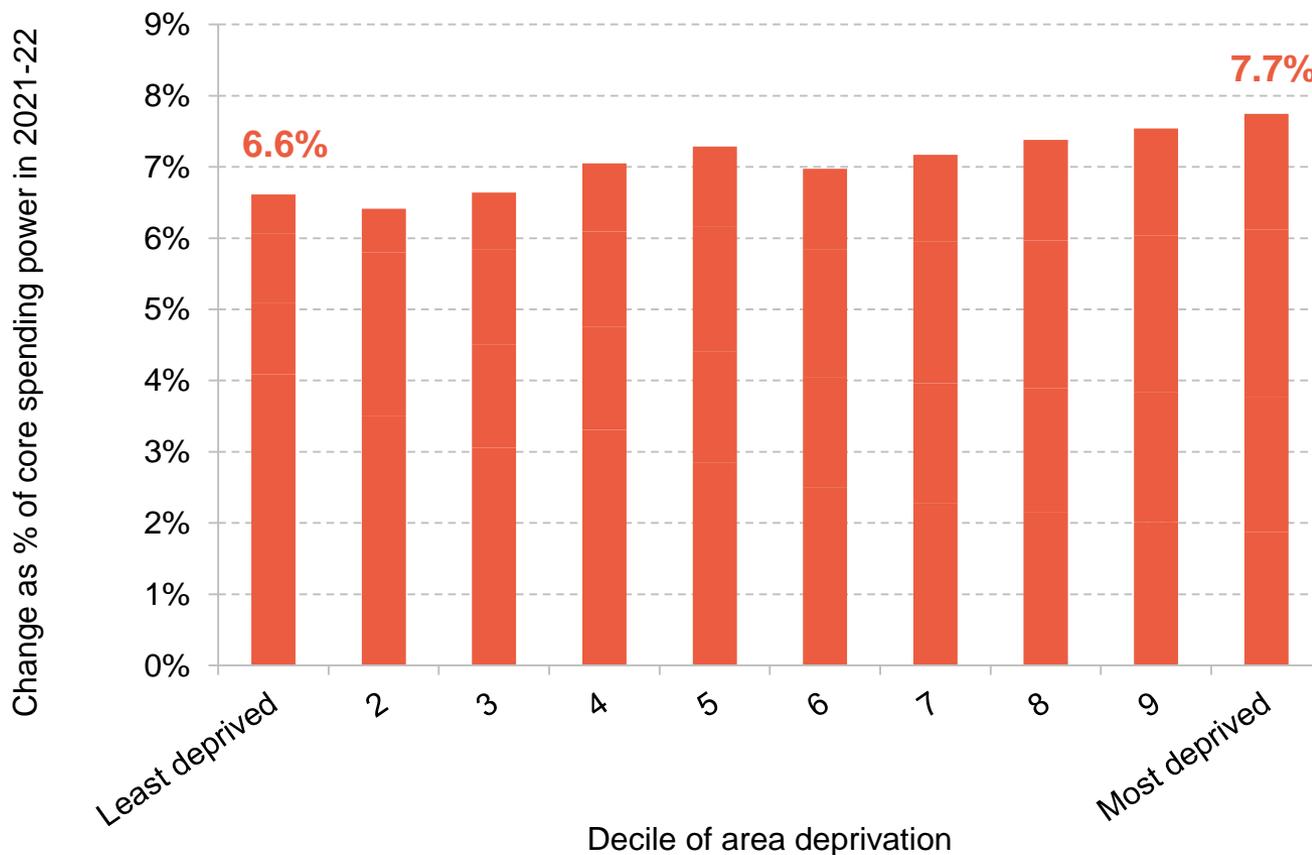
Provisional settlement



- Confirmed substantial **6.9%** rise in CSP next year (**4.1%** real-terms)
 - Includes continuation of this year's 'one-off' lower tier services grant
 - And new 'Services grant' worth £822m (again 'one-off')
- Councils in more deprived areas seeing bigger increases

Core spending power

Projected change in core spending power between 2021-22 and 2022-23, by deprivation decile group



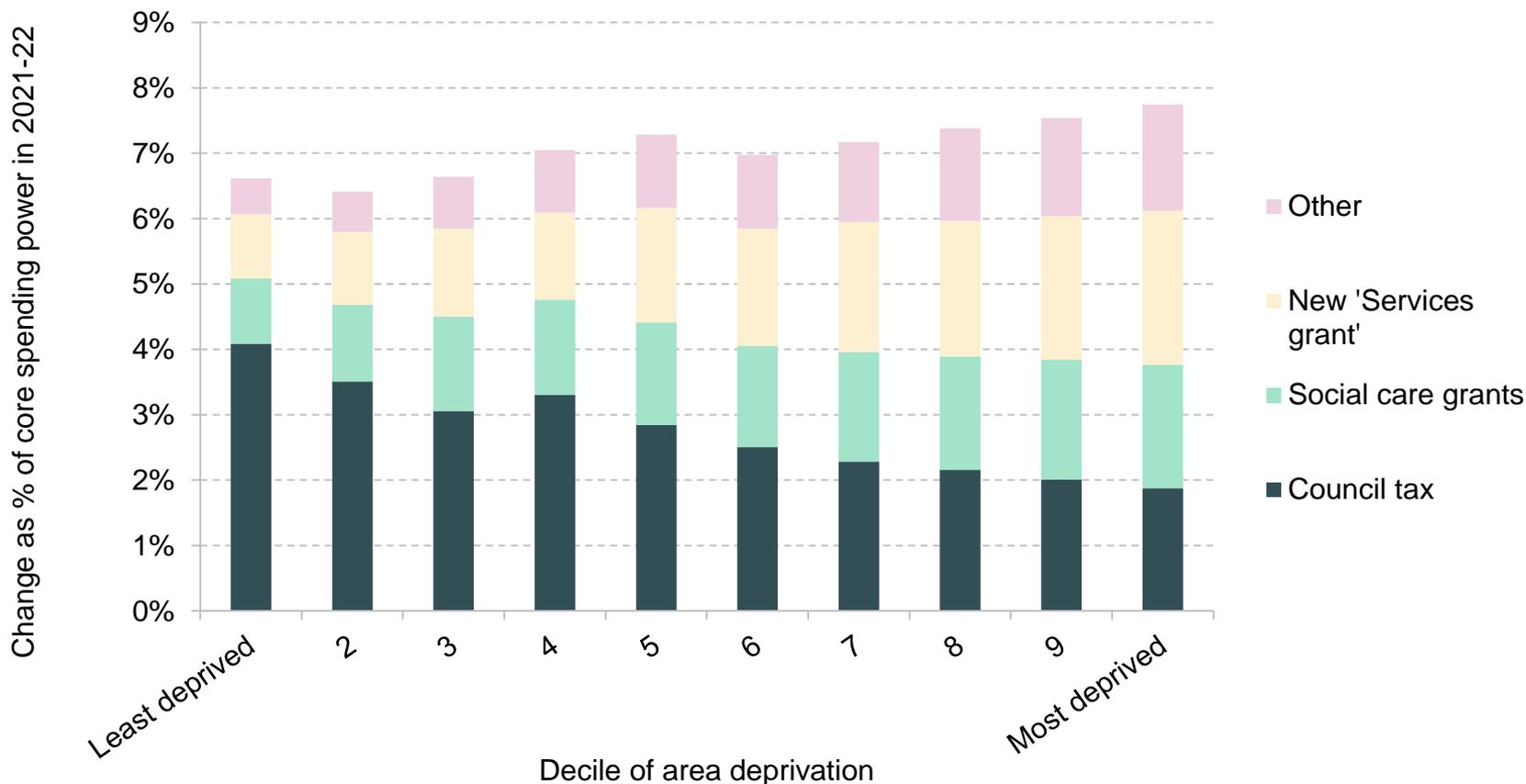
Note: Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level.

Source: Figure 2, Ogden and Phillips (2021) 'An initial response to the Local Government Finance Settlement by IFS researchers',

<https://ifs.org.uk/publications/15889>

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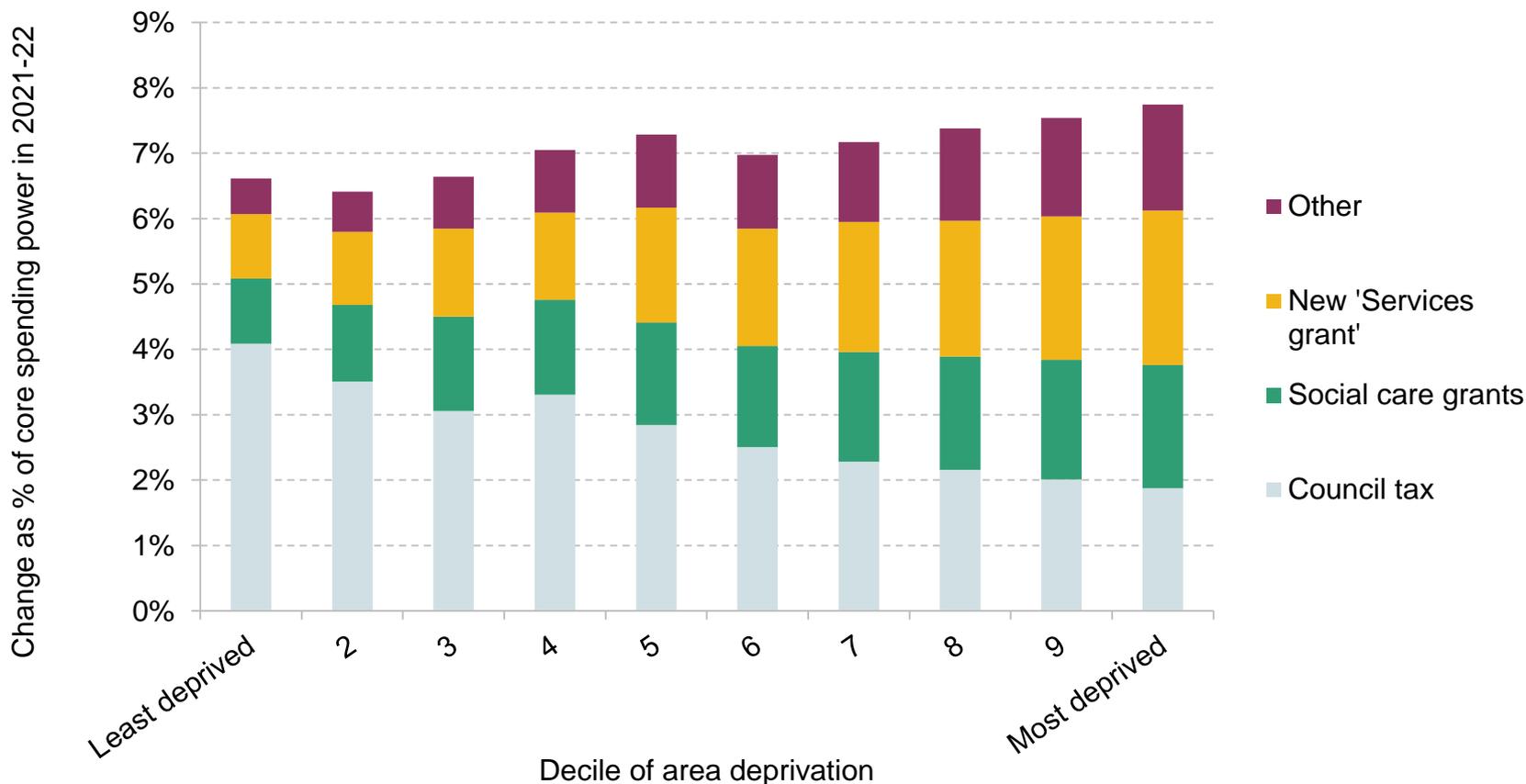
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Medium-term outlook



- Complicated by uncertainty about business rates income and scale of any remaining COVID pressures
- SR suggests grant funding frozen in 2023-24 and 2024-25, excluding funding for social care reforms and new responsibilities
 - Will make it harder to offset differences in revenue-raising capacities
 - And makes implementation of Fair Funding Review harder
 - New 'Services grant' excluded from any transitional protection

Funding reforms will create winners and losers

- Councils in Inner London likely to lose from reforms
 - Also did well from new 'Service grant' that won't be protected (£22 per capita, compared to £13 average)
- Shire districts could be hard hit by resetting of business rates baselines and reform of NHB
 - Their (large) share of growth in retained rates was worth 10% of funding in 2019-20
 - NHB was equivalent to 8.3% of core spending power in 2019-20, vs 1.1% across all councils
- Areas with faster housing growth have gained under NHB, but could plans to account for projected population growth compensate them?
- Short-term impacts will depend on scale and funding of transitional protection

But Fair Funding Review is vital

- Changing demographics and patterns of need across the country
 - Population since 2013: Tower Hamlets **+21%**; Blackpool **-2%**
- Changing role of councils
 - Social care (children's and adults) from **54%** of total spending in 2013-14 to **62%** in 2019-20
- Welcome statements and signals (e.g. 1 year settlement) but timing is still uncertain
- Needs to be principle-driven – spending needs, capacity for revenue-raising, incentives for local growth

The IFS-CIPFA LG finance model



IFS Local Government Finance Model

- Welcome
- Main Model and Results**
- Download Results
- Comparing Scenarios
- Revenue Projections
- Spending Projections
- Finance System
- Detailed Guidance

Local Authority Results

Select local authority

Wyre Forest

Select measure to display

Aggregate

Per capita

Select terms to display

Cash

Real (2020-21 prices)

Breakdown of revenues

This measure of revenues includes council tax revenues, retained business rates income and various grants (broadly those within core spending power, and public health grant - see Guidance for details). It does not include schools grants, some smaller grants within AEF, or income from other sources such as sales, fees and charges, or commercial income.

Breakdown of revenues over time, for selected authority

The chart displays the per capita total income in 2020-21 prices for the Wyre Forest local authority from 2013 to 2030. The income is composed of three main components: Council tax (blue), Business rates (orange), and Grants income (green). Council tax remains relatively stable, starting at approximately 72 in 2013 and ending at 78 in 2030. Business rates show a steady increase from about 23 in 2013 to 58 in 2030. Grants income fluctuates, peaking at around 45 in 2015 and 2016, and ending at 5 in 2030. The total per capita income starts at 140 in 2013, dips to 105 in 2020, and reaches a peak of 145 in 2027 before settling at 140 in 2030.

Year	Council tax	Business rates	Grants income	Total
2013	72	23	45	140
2014	74	20	35	129
2015	76	23	45	144
2016	76	25	40	141
2017	75	25	28	128
2018	75	35	15	125
2019	76	30	10	116
2020	73	29	3	105
2021	75	32	7	114
2022	77	55	5	137
2023	77	55	5	137
2024	77	55	5	137
2025	77	55	5	137
2026	77	55	5	137
2027	78	60	7	145
2028	78	60	5	143
2029	78	60	5	143
2030	78	60	2	140



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For more information on our work on local government finance, visit:

www.ifs.org.uk/research/local-finance

Read our report 'Looking back to look forwards: what can we learn from data on the impacts of COVID-19 on councils in 2020-21?', available at:

<https://ifs.org.uk/publications/15900>



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