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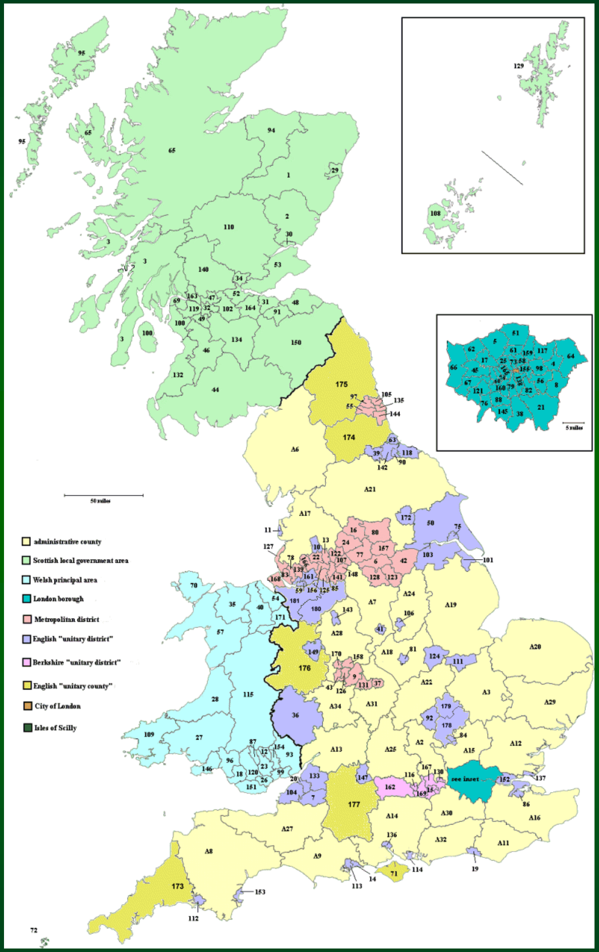
Local government and the nations: a devolution revolution?

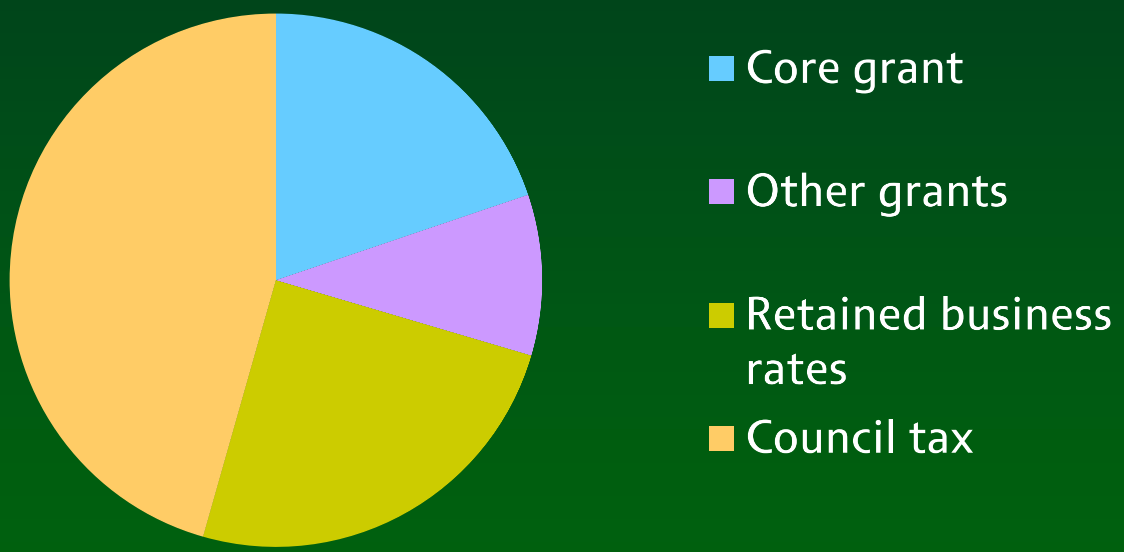


David Phillips

English local government spending

- Local government DEL to be cut by 56% by 2019-20

Local Government Funding in 2015-16



- HMT estimates councils' spending to be reduced by 7%, on average
  - But could vary substantially across England

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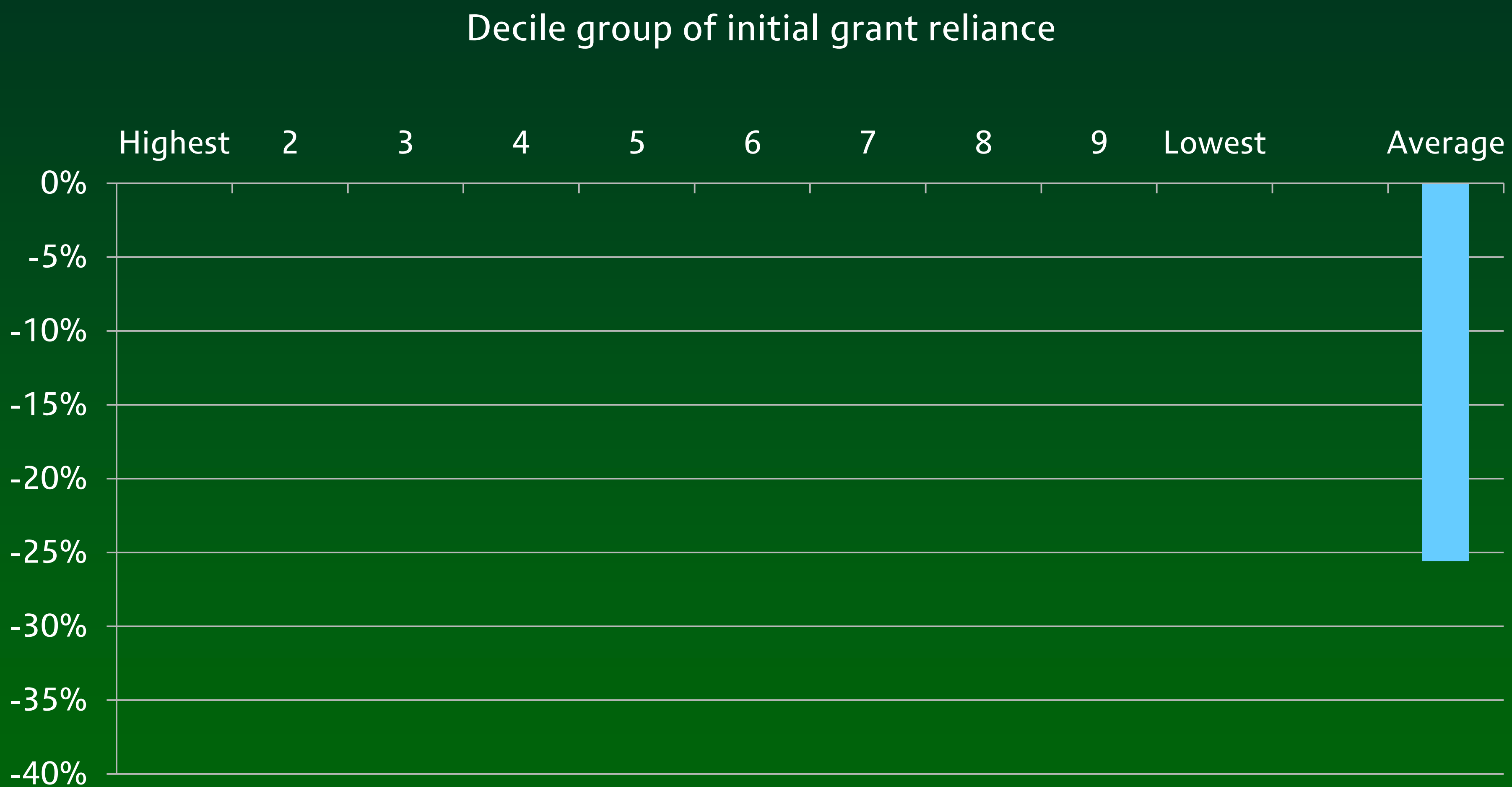
Average change in spending power of councils between 2009–10 and 2015–16



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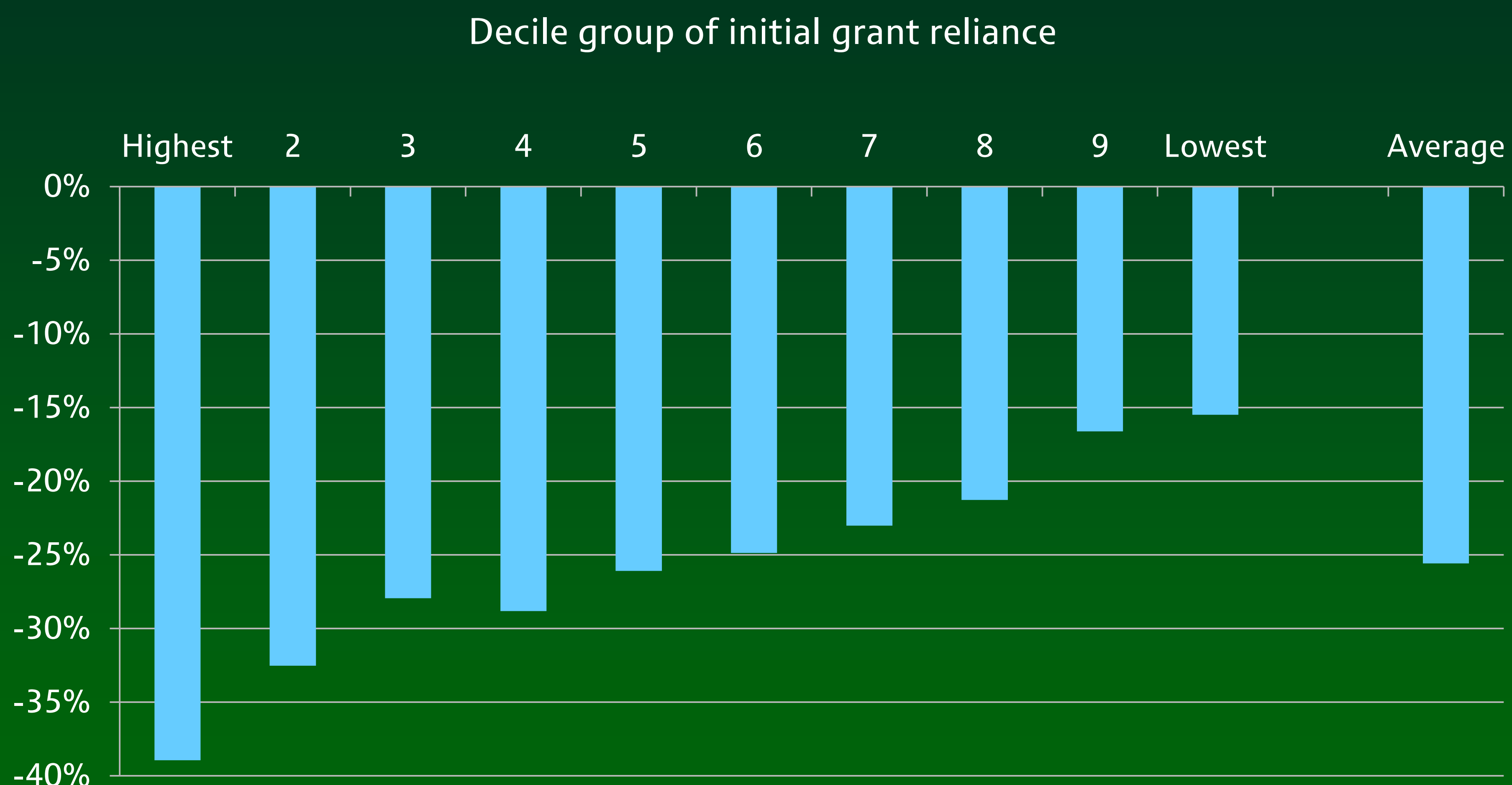

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Looking ahead to 2019–20

- Continued equal % cuts to grants would hit grant-dependent harder
  - This group seen biggest cuts already
- But could deliver a different pattern of overall spending cuts
  - e.g. equal % cuts in spending power across councils
  - Closer to the approach in Wales
- Find out more in December's LG Financial Settlement
  - Spending Review suggests cuts formula will change

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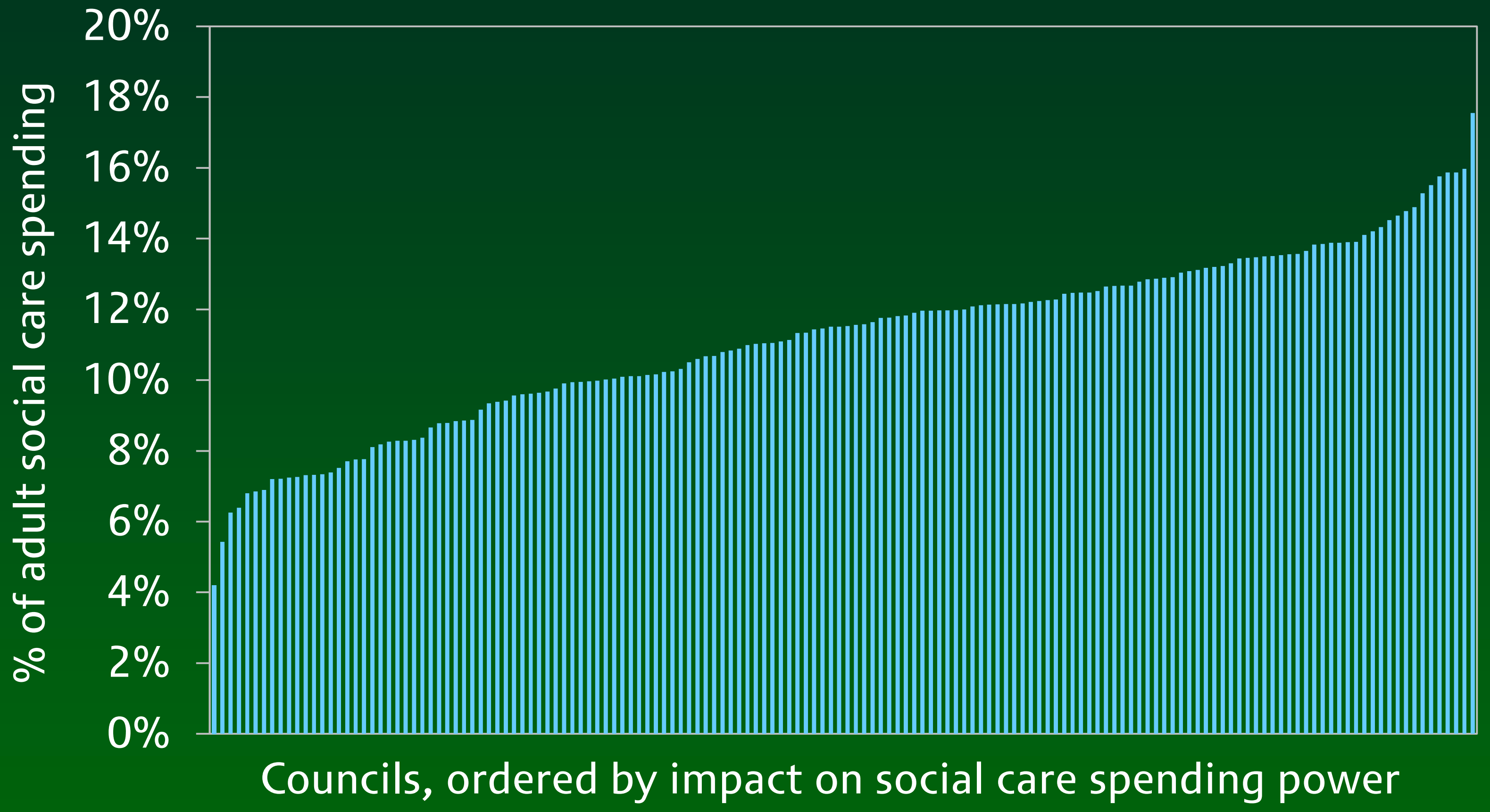
Extra council tax for adult social care (I)

- In recent years councils have needed a referendum to approve increasing council tax by more than 2% a year
- From next year able to increase council tax by 2% more *each year* without a local referendum if extra spent on adult social care
  - So referendum if overall council tax up >4% a year?
  - Raise £1.7bn a year by 2019-20 if used in full
- 4x2% equivalent to 11% of adult social care spending in 2015-16
  - But varies substantially across England

How much would extra council tax raise by council?



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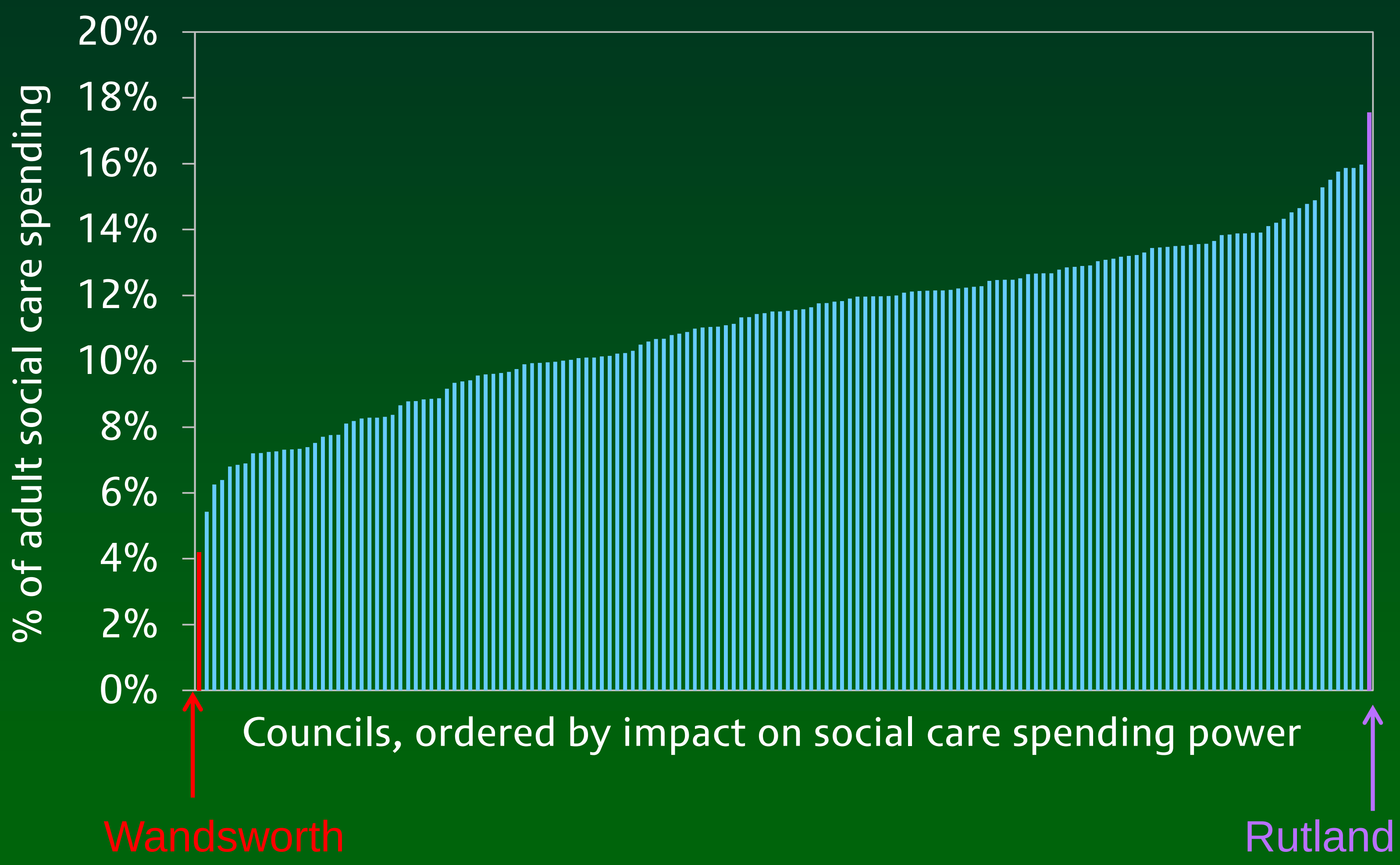

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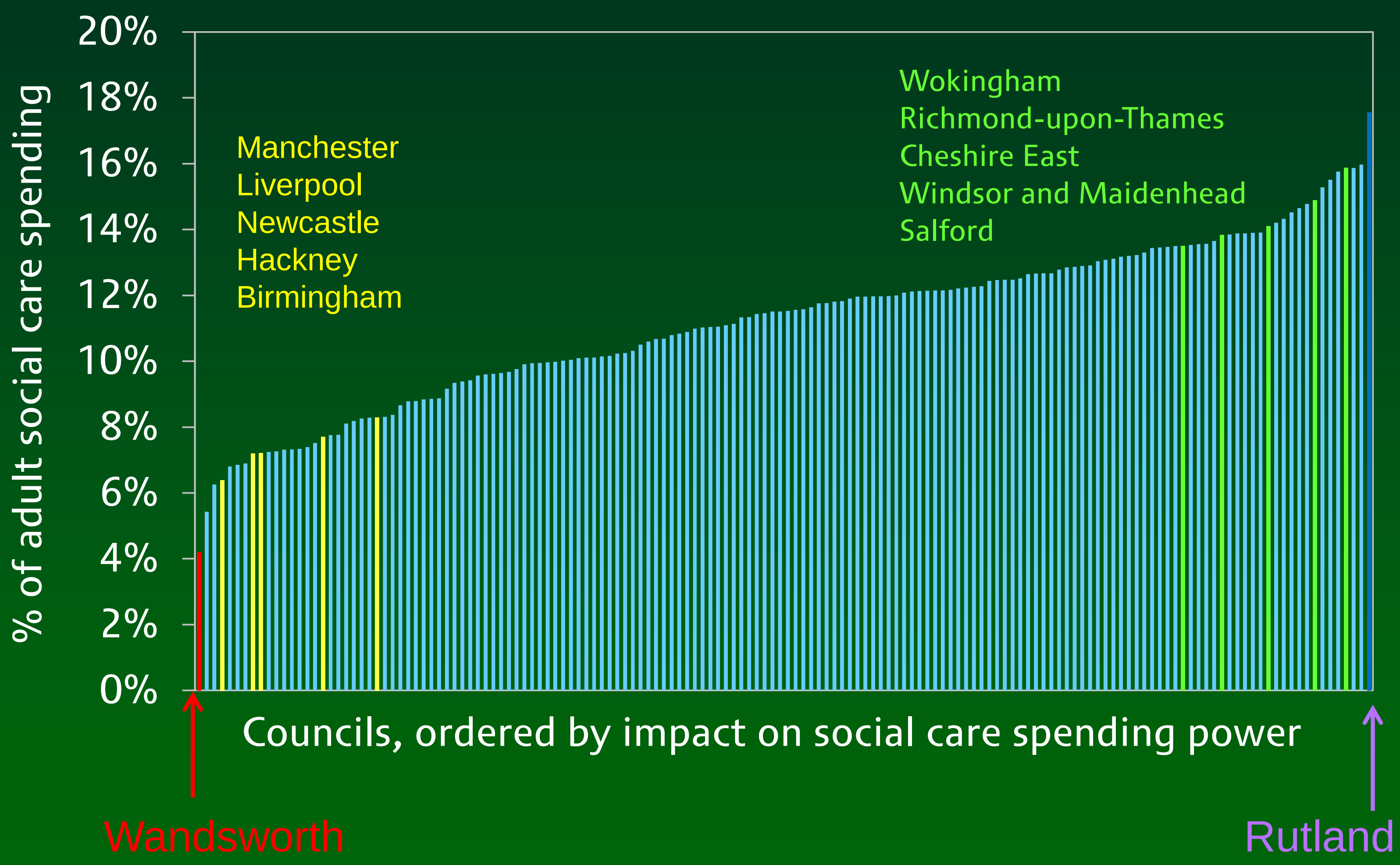

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Extra council tax for adult social care (II)

- How measure ‘extra’ spending on social care?
- Cash-terms increase in budget equivalent to extra council tax?
  - Councils may have to cut other areas more than otherwise would have
- Estimate council spending on social care without policy?
  - But difficult to verify and ensure this is genuinely new money

Business rates revenues retention (I)

- Business rates retention scheme means individual councils keep up to 50% of business rates *growth* that results from new developments
  - Business rates from existing premises redistributed between councils
  - Levies and safety nets to limit gains/losses
- Individual councils to keep 100% of business rates *growth* as a result of new developments by 2020
  - *Not* 100% of all rates raised in their area
  - Continue to redistribute rates so no ‘overnight’ winners or losers
- Winning councils those seeing growth in business rates that is large (in cash terms) relative to their budgets
  - A given % growth translates into more cash if start with higher level of business rates revenues
  - Government to consult on ‘capping’ funding divergence

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Business rates revenues retention (II)

- Grants will be abolished alongside full business rate devolution
  - Extra business rates revenue bigger than grants it will replace
- Councils will have new responsibilities for this extra money
  - Details to be consulted on
  - e.g. housing benefit admin costs, public health services
- Will councils future revenues (council tax and business rates) keep pace with demand for existing and new services?

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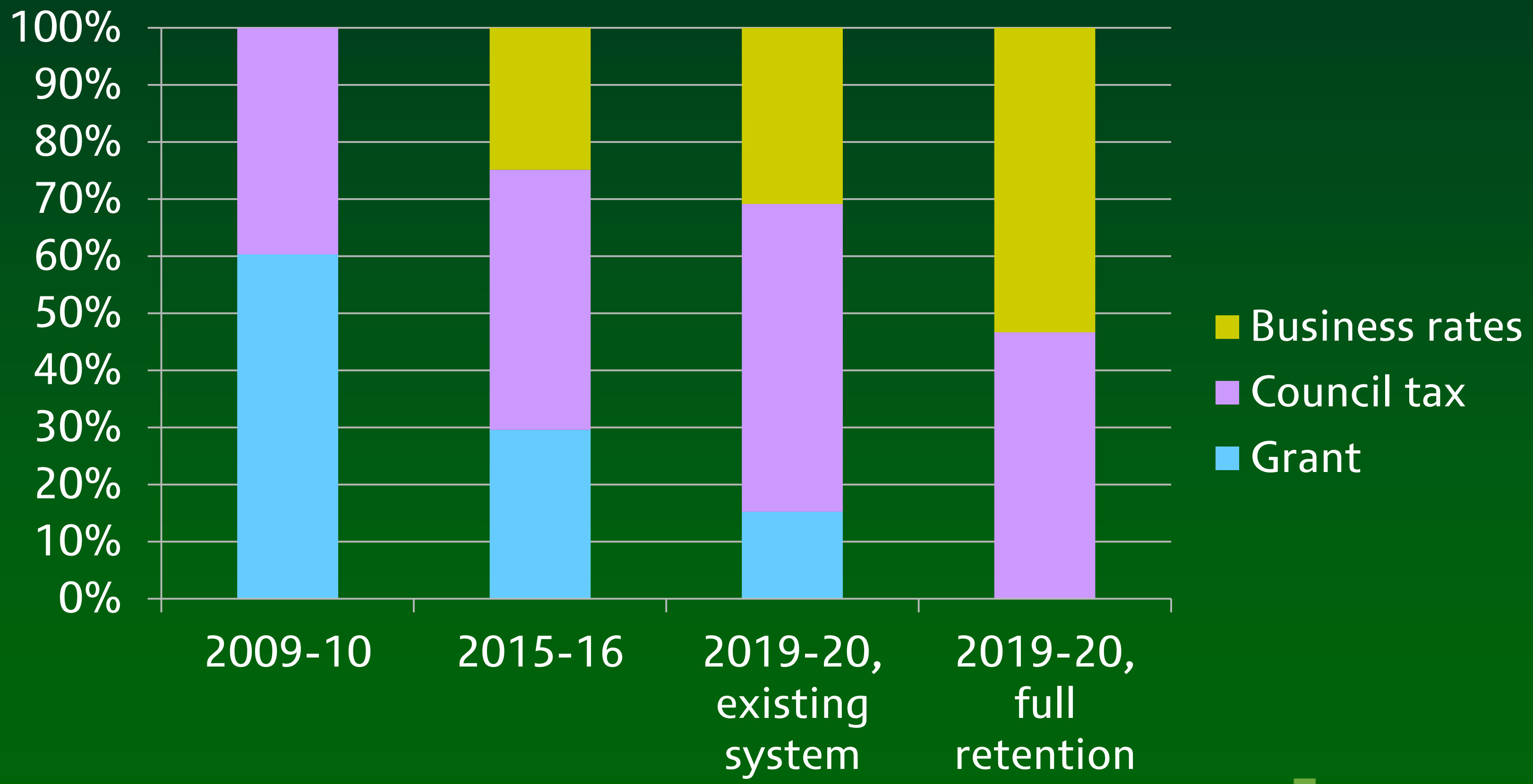
A big shift in councils' funding

- 100% business rates retention culmination of big shift back from central to local funding of councils



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New powers over business rates?

- Local authorities will gain the power to cut headline rates
  - Can already use local reliefs to the same effect (Localism Act 2011)
  - Will more explicit label act as a signal encouraging use?
- Ability to levy a 2p supplement if elected mayor and agreement of business members of local enterprise partnerships
  - Already have similar powers for supplements
  - New powers less constrained in some ways, more in others
- Not so revolutionary?

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Devolution to NI and Wales

- Corporation tax to be devolved to Northern Ireland in April 2018
  - Intention for 12.5% rate
  - Need to agree fiscal framework for these new powers
  - Direct cost of £240m; hope is faster growth helps pay for the cut
- No referendum needed to devolve part of income tax to Wales
  - £2.4bn of revenues in 2018-19, equivalent adjustment to block grant
- New 'funding floor' for Wales announced
  - 115% of spending on comparable services in England, to account for higher needs in Wales
  - Did not have to apply this floor in Spending Review

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A flaw in the Barnett Formula fixed

- Previously, Barnett Formula has treated spending in England funded by business rates in a flawed way. Because of this:
  - Scotland avoided £600m of cuts a year by 2015-16
  - NI avoided £200m of cuts a year by 2015-16
- This has been fixed going forwards
  - Does not undo these earlier ‘gains’ for Scotland and NI
  - But stops them growing further in years ahead
- This is a flaw a certain IFS researcher pointed out last year
  - Good that it’s fixed

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Summary

- How cuts to councils' spending in England vary across country will depend on formula used to calculate grant cut
- Full retention of business rates is culmination of big shift from central to local funding in recent years
  - Taken together, this is genuinely revolutionary
  - Winners and losers
- 'New powers' to vary rates not so revolutionary as they may seem
- Devolution of corporation tax to NI and income tax to Wales
  - Part of big changes to devolved government finance, esp. Scotland
- Barnett formula set to stay in place
  - But one flaw in it has been fixed

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