

The fiscal and funding outlook for 2020 and beyond

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LGA Annual Local Government Finance Conference 2019

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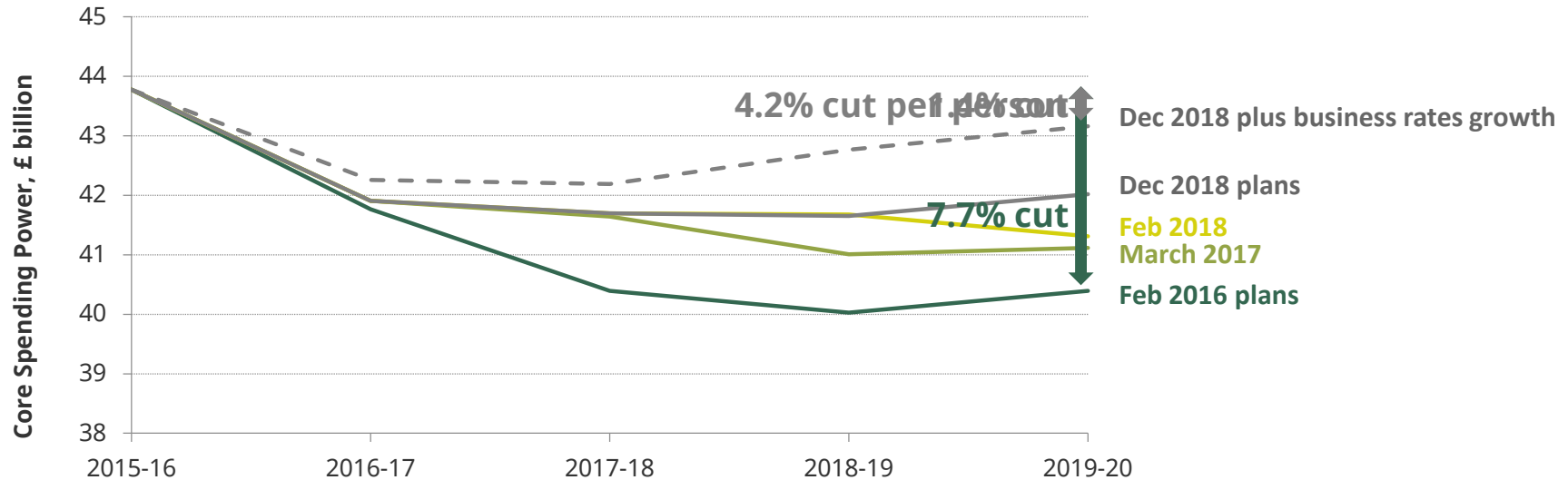
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THE MJ

Councils have faced a continuing squeeze

Between 2009-10 and 2015-16, English councils' spending on services fell around 18% in real terms (22% per person)

Cuts slowed in recent years



Plans for 2020 & beyond still to be determined

Spending Review

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

Business Rates Retention

- Consulting now, with full plans after Spending Review

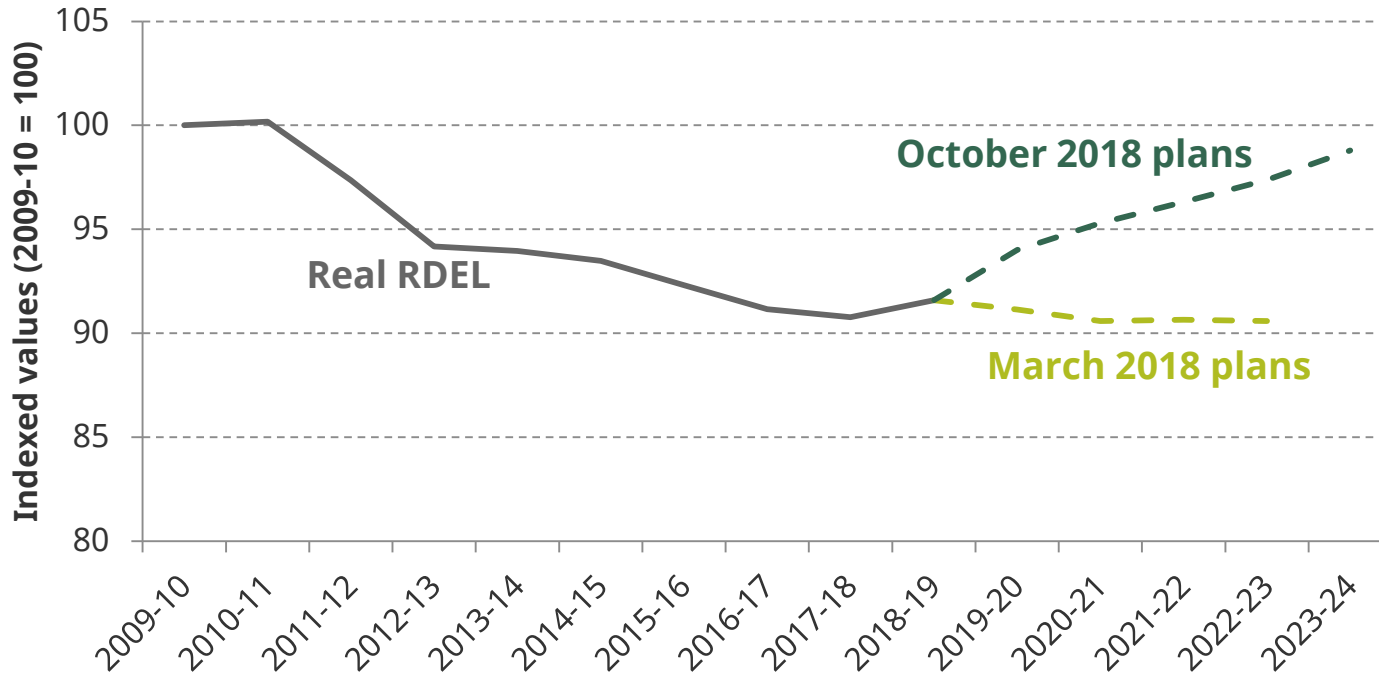
Fair Funding

- Consulting now, with full plans (inc. transition) after Spending Review

Social Care Green paper

- Imminently???????

The end of Austerity?



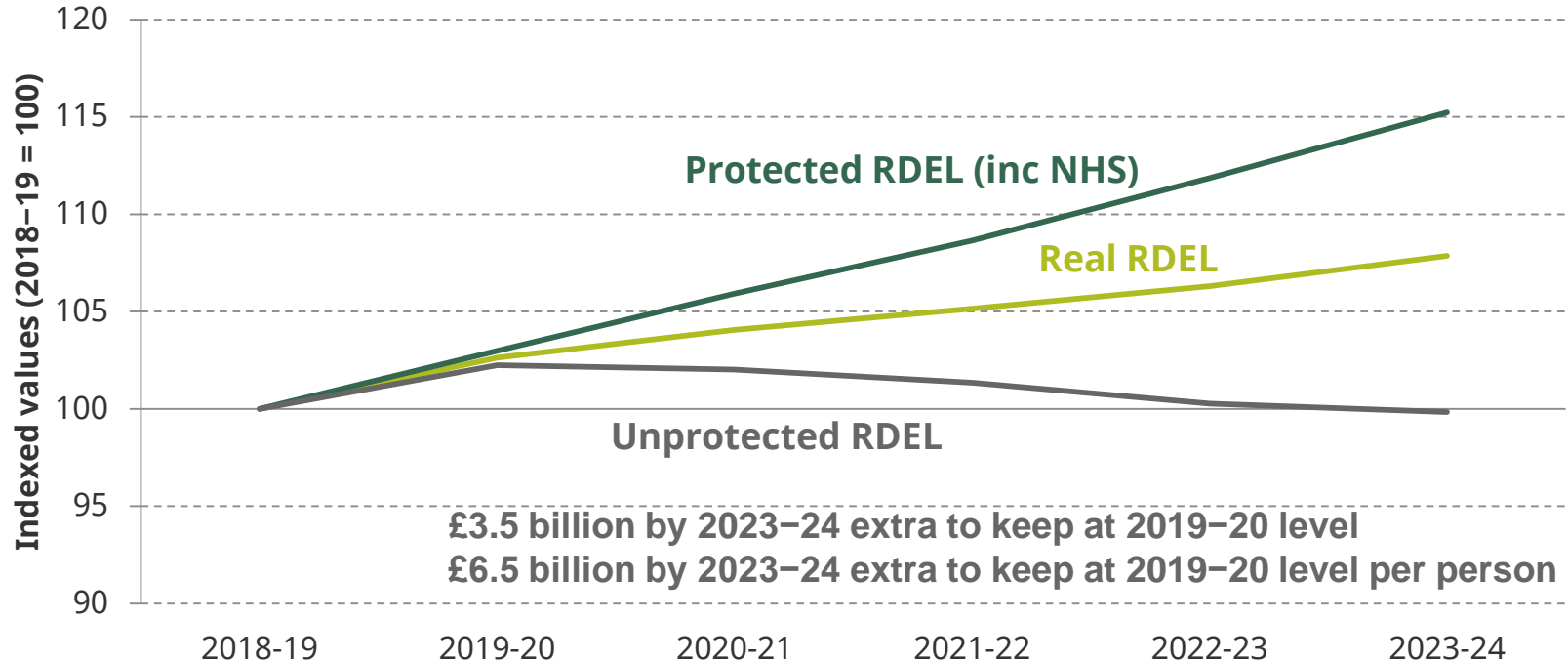
**Real increase of
£18.9 billion
between 2018-19
and 2022-23**

**Compares to a £7.6
billion real cut
implied by Spring
Statement plans**

Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).

Source: Ben Zaranko (2018), available at: <https://www.ifs.org.uk/publications/13657>.

Not exactly...



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Source: Ben Zaranko (2018), available at: <https://www.ifs.org.uk/publications/13657>.

How could these plans change?

How will government respond to student loans re-classification?

- Changed *nothing* in reality, but will increase reported deficit by £17 billion (0.8% national income) in 2023-24
- Change fiscal targets?

The B word

- Chancellor indicated extra money if 'good deal'
- No deal could also be accompanied by a spending boost to support economy, but in long-run likely 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 and abolition of general grant funding due in 2020

- 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

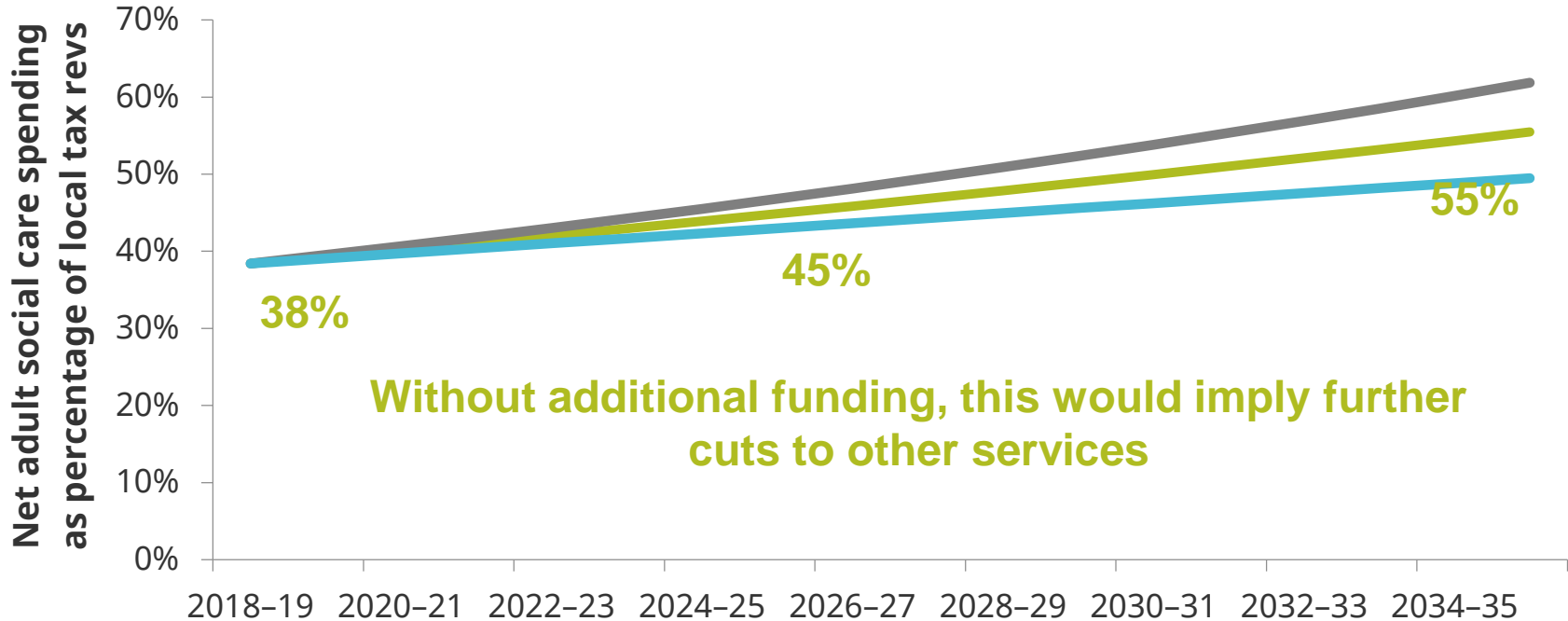
- Choice of retention rate and grants/responsibilities to be rolled in
- Net tariff or top-up to system to remove/add funding
- Level of any remaining grants, and whether other taxes devolved

Councils will face a range of spending pressures

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

Tax revenues unlikely to keep pace with costs

— 4% council tax increases — 3% council tax increases — 5% council tax increases



Without additional funding, this would imply further cuts to other services

The Fair Funding Review

Update the distribution of funding between councils

- Could have significant impact on individual councils' budgets
- Proposed 'foundation formula' likely to benefit more affluent rural/suburban areas over more deprived urban areas
- Impact of changes to social care formulas still unknown and is important

An opportunity to bargain for more funding for local government?

- Losers likely to make more political noise than winners
- Recent precedent: additional funding found for schools to help implement national funding formula

Summary

Current plans imply further cuts for unprotected services after 2019-20

- Changes to plans more likely to increase funding in short-medium term
- Long-term outlook depends on economy: Brexit impact, productivity

Continued above-inflation increases in council tax would mean councils budgets likely to grow in real terms

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

Fair Funding Review is formally about distribution not level of funding

- But will additional funding be provided to compensate losers?

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