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

Decile group of initial grant reliance

<table>
<thead>
<tr>
<th>Decile Group</th>
<th>Change</th>
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<tbody>
<tr>
<td>Highest</td>
<td>-40%</td>
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<tr>
<td>2</td>
<td>-35%</td>
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<td>3</td>
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<td>6</td>
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<td>8</td>
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<td>9</td>
<td>5%</td>
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<tr>
<td>Lowest</td>
<td>10%</td>
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Average change: -35%
Average change in spending power of councils between 2009–10 and 2015–16

Decile group of initial grant reliance
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
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?

% of adult social care spending

Councils, ordered by impact on social care spending power
How much would extra council tax raise by council?

Councils, ordered by impact on social care spending power

% of adult social care spending

0% 2% 4% 6% 8% 10% 12% 14% 16% 18% 20%

Wandsworth

Rutland
How much would extra council tax raise by council?

- Wandsworth
- Rutland
- Manchester
- Liverpool
- Newcastle
- Hackney
- Birmingham
- Wokingham
- Richmond-upon-Thames
- Cheshire East
- Windsor and Maidenhead
- Salford
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
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?
A big shift in councils’ funding

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

![Bar chart showing the shift in councils' funding from 2009-10 to 2019-20, with business rates, council tax, and grant components.](chart.png)
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?
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
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
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