

Future Funding of Local Government

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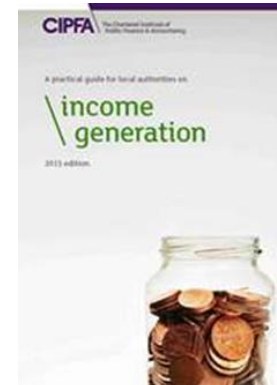
July 2018

@joannepittcipfa

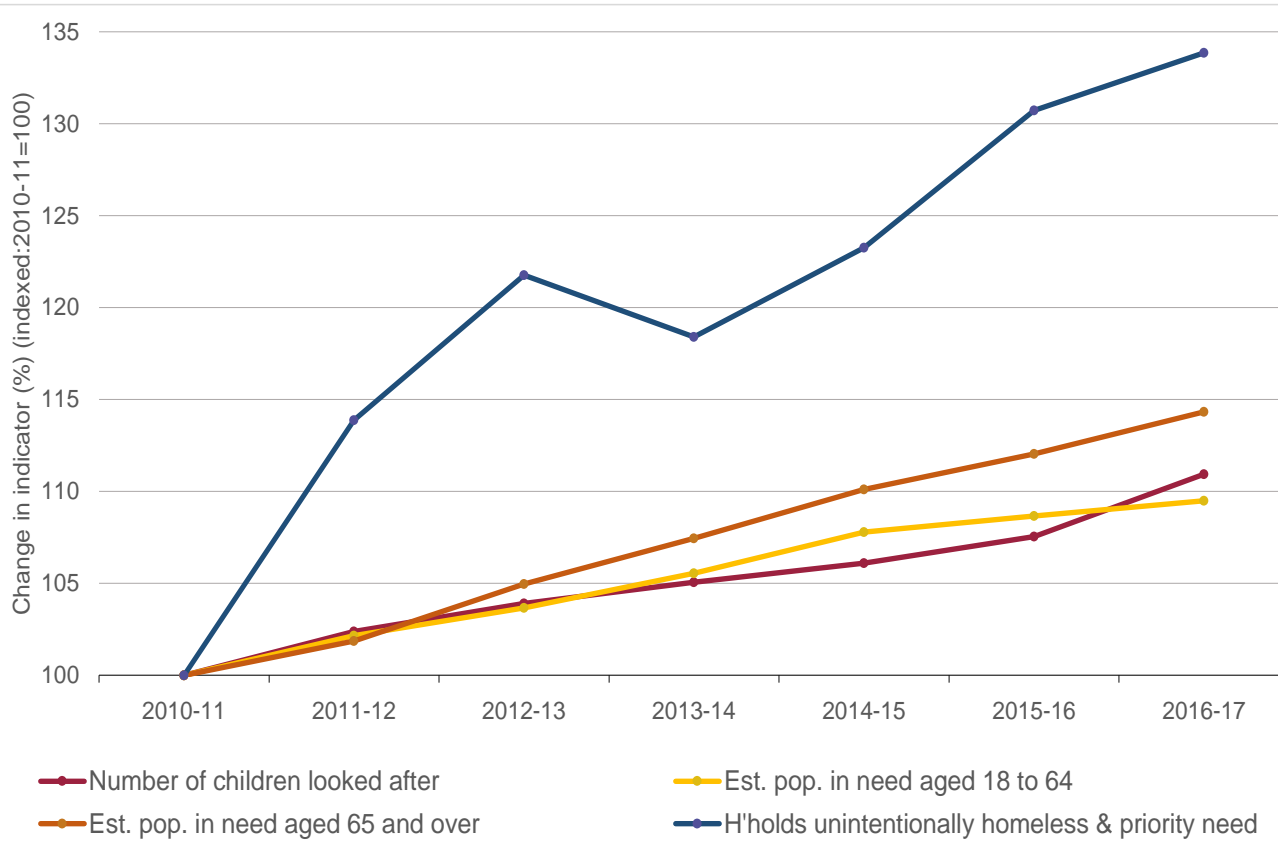
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Local Government Funding Backdrop

- 10 years of austerity - ongoing funding pressures combined with growing demand.
- Local government substantial real terms falls in government funding
- 56.3% reduction by 2019-20
- Move from government funding to business rates and reliance on anticipated growth in council tax.
- Greater commercialism
- New cash is focused on adult social care
- Extra cash is crisis funding



Local Government Growth in Demand



- **10.9%** increase in children looked after 2010-11 to 2016-17
- **9.5%** increase in the estimated population in need aged 18-64
- **14.3%** increase in the population in need aged 65 and over
- **33.9%** increase in households accepted as unintentionally homeless and in priority need

Stark choices

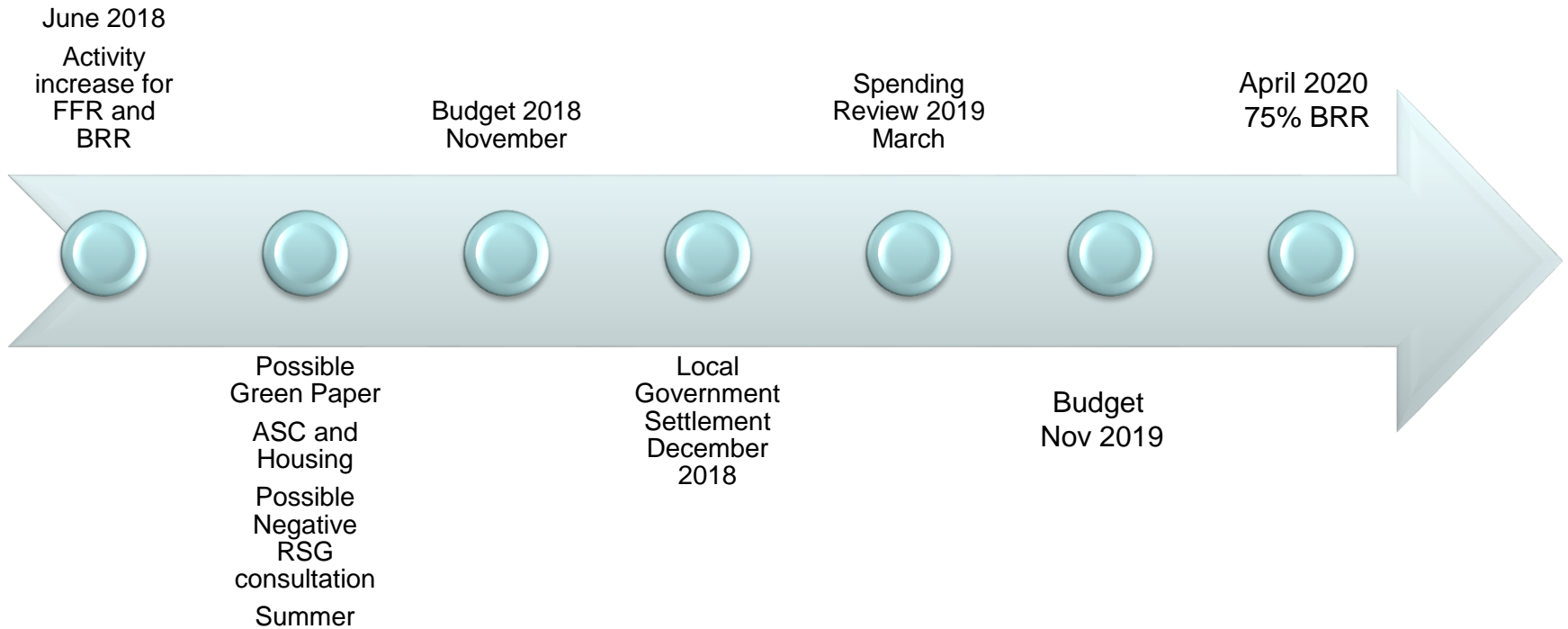
“With the economy only growing at a sluggish 1.5% a year, there is no supply of magic money.

If nothing is done in the long term, the UK risks reaching a position where its public sector consists of little more than a health service and nuclear warheads. And possibly High Speed 2.

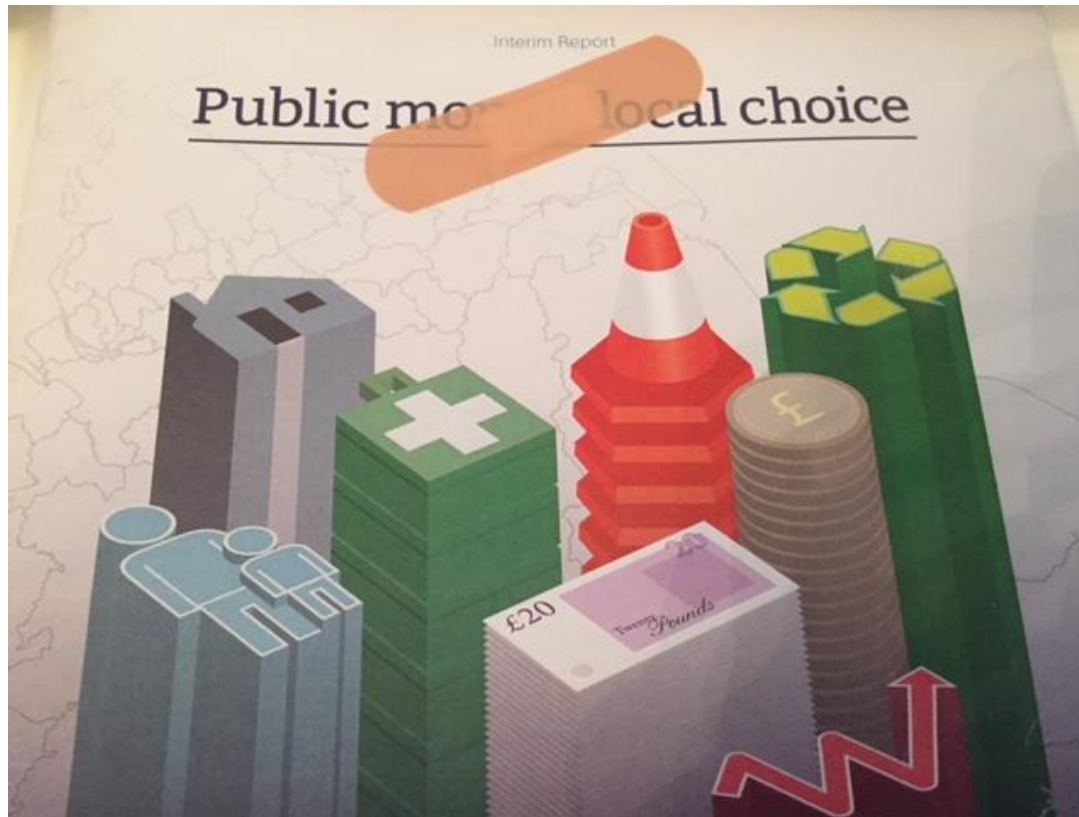
But not much local government.”

Tony Travers LSE Jan 2018

Time frame for Fiscal Announcements

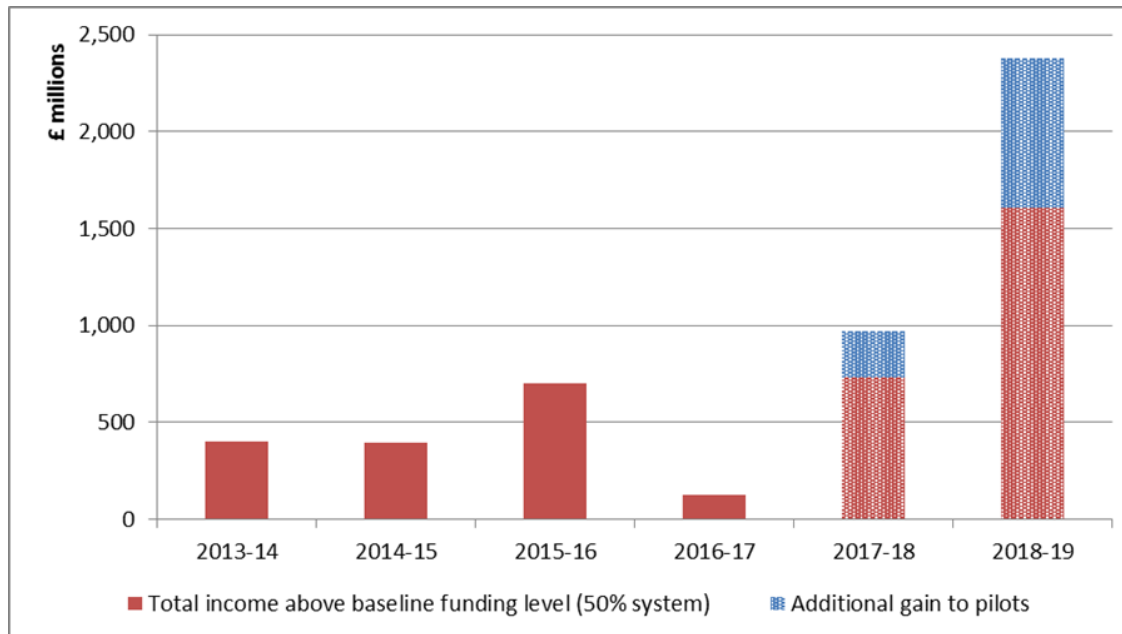


BRR and FFR – is it enough ?

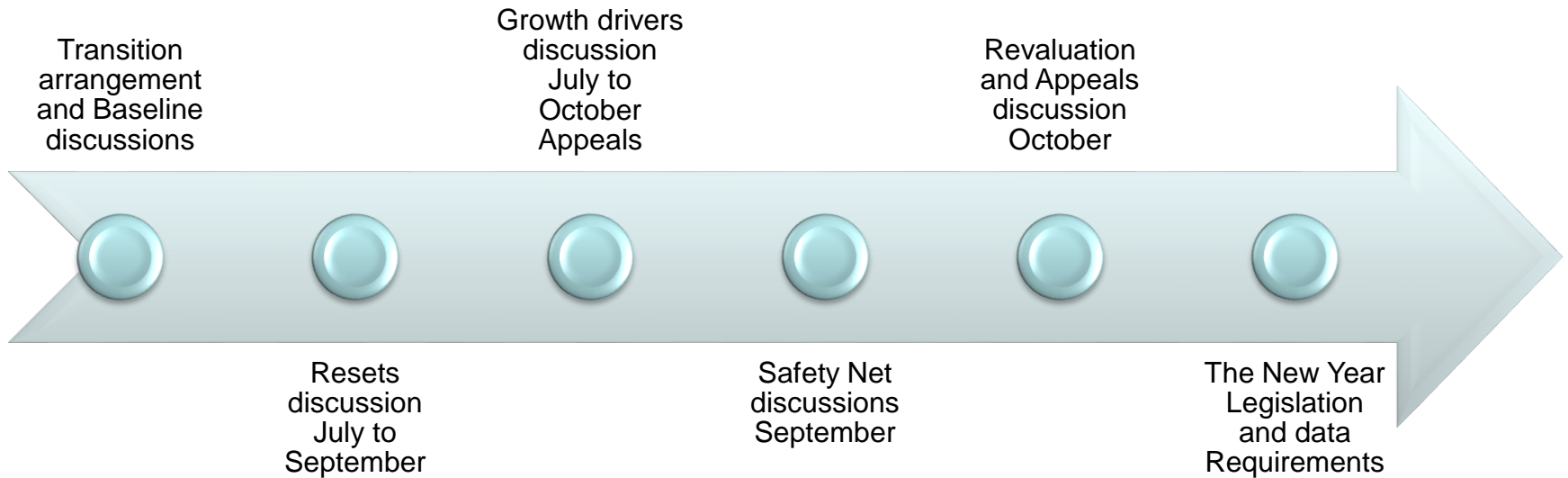


Business Rates Retention

- The operation of the BRR is based on a number of assumptions.
 - that it does indeed provide an incentive to grow revenue;
 - that the incentives within the system link to local economic growth;
 - that the system translates incentive-driven behaviour impartially into increased revenue



What is being discussed ?



Why is it so complicated ?

- Highly complex system dealing in many unknowns
- Stakeholders working together
- Papers available
- Example of questions for establishing the baseline:
 - One or two stage
 - Top down or bottom up
 - Which baseline
 - Spot or average
 - Which data set
- Deeper dive – How do we measure the income for the business rates baseline ?
- Multiply this across each category

What can we learn from the BR pilots ?

- IFS Study April 2018
- Most pilots received more than allocated
- All non-pilot areas received less
- London almost half of the national pilot dividend



“Given pilots are guaranteed for a year only, and councils are prevented from losing out, the potential for learning about the impact of a long-term 100% business rates retention scheme is limited.”

Neil Amin-Smith, IFS Research economist

Potential gains and losses from pilot schemes, 2018-19



Note: This graph shows 2018 pilot areas aggregated into their respective pools, and is at upper-tier level for all other councils. Fire authorities not in 2018 pilot areas are not shown. It compares council's gains from the pilot schemes (which are zero for councils not in pilot areas) with what they would have received if the extra funding given to pilots had instead been allocated across all councils according to assessed spending need. It does this by subtracting the latter from the former.

Source: Figure 2 in IFS Briefing note B233. Neil Amin-Smith, David Phillips, Polly Simpson. <https://www.ifs.org.uk/publications/12913> © Institute for Fiscal Studies

- New prospectus for new pilots
- Pilots in 2018- 2019 to pioneer new tier splits and pooling
- Together the pilot areas cover 53% of the English population and raise 63% of English business rates revenues.

Future of Business Rate Retention

- 75% BRR
- No Local Government Finance Bill
- Fiscal neutrality
- Top-up and Tariff
- Roll in RSG, RSDG & Public Health Grant?
- BRR Reset 2020/21 with Fair Funding Review outcome
- Appeals compensation
- Followed by 100% BRR?

Fair Funding Review

- Update on the consultation on relative needs
 - Formal response later this year
- Structure of needs assessment
 - Balance transparency and simplicity
 - Broad agreement for all services within the foundation formula other than the six specifically excluded in the consultation but discussion on HRA homeless etc
 - Support for an area cost adjustment
- Cost drivers
 - Broad agreement that the cost drivers set out in the consultation for the Foundation Formula and service specific formulas were correct
 - Discussion on density and impact of commuters / students etc
- Analytical techniques
 - which approach
 - What lesson's can be learnt

CIPFA's Response to FFR

- Definition of the concept of fairness
 - Needs driven - Fairness as a means of social justice
 - Deservedness - Fairness as individual freedom
 - Sameness - Fairness as equality of outcome
- Disconnect between Funding envelope and service delivery
- Reduction in the risk around transition
- Independent Body to depoliticise of LG funding
- Further research on the relationship between policy intention and outcome
 - BR growth and economic growth
 - Equalisation



Less reserves in the future

- Councils are legally required to balance their revenue expenditure with their income each year
- Local authorities maintain reserves to help them manage changes
- Councils are now entering into a period of significantly higher risk with the increasing % of business rates retention

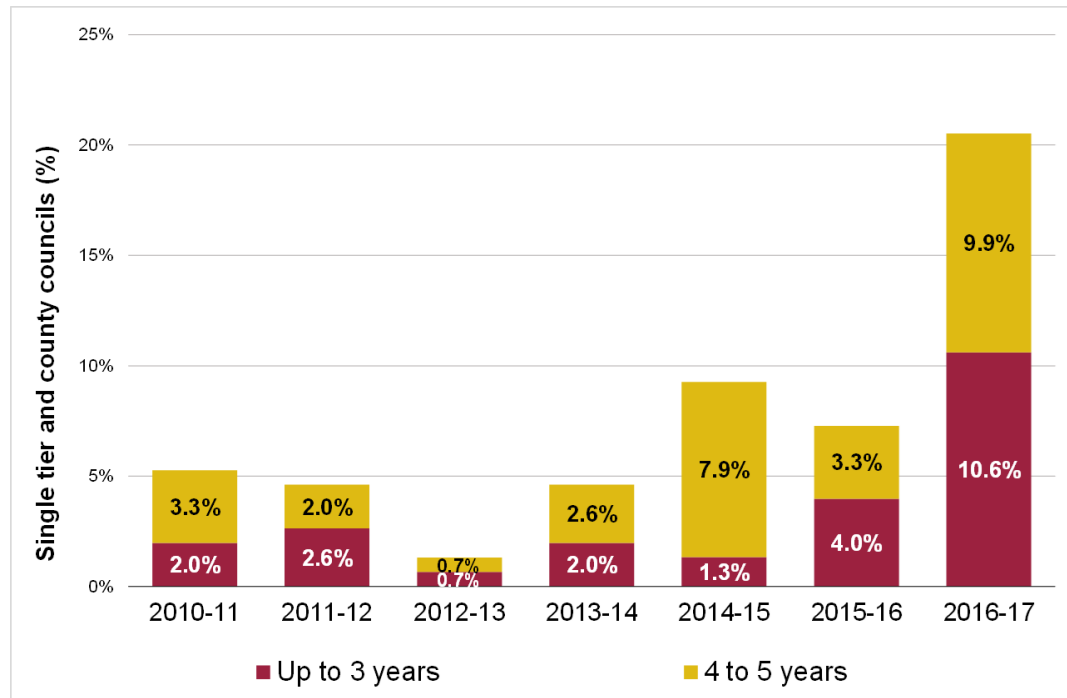


Chart NAO LA
sustainability
2018

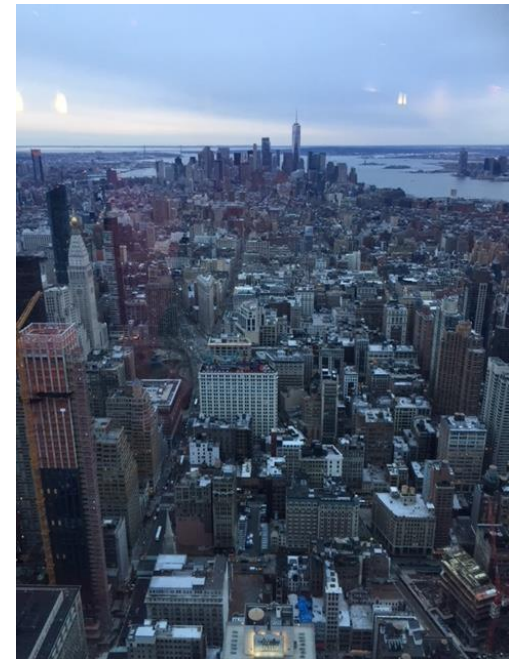
Becoming more commercial

- Three key drivers:
 - Austerity
 - Self-Sufficiency
 - Entrepreneurship
- Not new but there is more necessity
- Examples
 - Complex regeneration
 - lending
 - Property yield
 - Housing companies
 - Treasury products



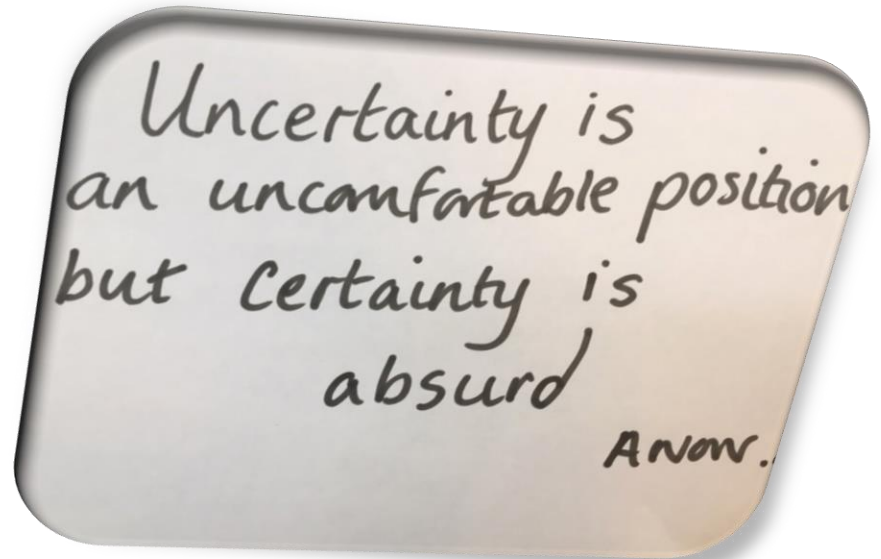
Commercialism – What does good look like?

- Clear strategy and links
- The right internal skills and capacity
- Ensuring appropriate independent advice
- Thought through governance
- No optimism bias
- Risks understood and communicated
- Acting 'Proportionately'



Managing Risk

- Acceptance that there is increasing uncertainty
- Strength in
 - Longer term vision
 - Links to strategy
 - Transparency
- Changes in the IFRS standards
 - IFRS 9
 - IFRS 16
- Strengthening the Code
 - Prudential
 - Treasury management



Supporting the sector



Policy Direction

- Learn the lessons from Northamptonshire County Council
- Long term funding solutions for Local Government
- Additional freedoms and flexibilities for Local Government
- Align local public services
- National Audit Office recommendations
- Investment



Summary

- Fiscally challenging
- Need for long term vision
- Clearer understanding of the impact of new policies in the long term
- Clearer understanding of the impact of cost shunting
- Retaining flexibility for Local Authorities to borrow and invest
- Acceptable level of commercial activity

Questions and Discussion ?

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