Council funding: what’s happened and what’s next?

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Spending down 21% since 2009-10...

... following big increases in 2000s

Large cutbacks in discretionary spending...

Large cutbacks in discretionary spending...

-60% -50% -40% -30% -20% -10% 0% 10% 20%

- Total service spending
- Planning and development
- Housing services
- Cultural and leisure services
- Highways and transport
- Central services
- Environmental services
- Adult social services
- Children's social services

Core children’s social services only
- Sure Start down 66%
- Services for young people down 64%

Increased focus on critical services

Core social care & public health: > 67% of non-schools spending

• Core social care services were 52% in 2009-10

Concentration on most critical needs

• Most severe social care needs (esp. younger adults)
• Looked-after children

True also for services where overall budgets cut significantly

• Homelessness
• Concessionary bus fares
Overall purse strings have started to loosen...

Indexed values (2018−19 = 100)

Real RDEL

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

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...and money seemingly to burn

- Cut Corporation Tax: £13bn
- Raise NICs allowance: £11bn
- Cut student debt interest: £1bn
- Increase Defence spending: £13bn
- Increase HRT: £9bn
- Increase schools spend: £5bn
- 20,000 extra police: £1bn
...and money seemingly to burn...

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... but what about councils?

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Adult care to take rising share of local taxes

Note: Figure shows the percentage of council tax and retained business rates (75% retention) required to meet adult social care spending needs. Source: IFS (2019) ‘English council funding: what’s happened and what’s next?’
So what to do?

Accept councils can do (even) less

Raise more revenues either nationally or locally

- Raise nationally if prioritise redistribution and consistency
- Raise locally if prioritise incentives and discretion
Possible income from tax devolution
<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Characteristics</th>
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</thead>
<tbody>
<tr>
<td>Value-added / Sales Taxes</td>
<td>Broad incentives to boost value-added / sales</td>
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<td>Administratively difficult</td>
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<td>Sales are highly mobile</td>
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<tr>
<td>Corporate Income Taxes</td>
<td>Broad incentives to boost local corporate profits</td>
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<td>Administratively difficult</td>
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<td></td>
<td>Profits are highly mobile</td>
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<tr>
<td>Stamp Duty Land Tax</td>
<td>Properties aren’t mobile</td>
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<td></td>
<td>Revenues very unequal and highly volatile</td>
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<td></td>
<td>Tax that should be abolished – not entrenched via devolution</td>
</tr>
</tbody>
</table>
Income tax best option for part-devolution?

Identifying where taxpayers live and levying taxes appropriately much easier than identifying location of profits or value-added

Broader incentives to boost local incomes and employment – including via helping residents to access better jobs in neighbouring areas

Income taxpayers are local voters – shoppers and business owners often aren’t

Tax devolution per se not a solution to funding situation – more funding is, which means higher taxes (or, in short term, borrowing)
Uneven revs. → at least some redistribution
So what to do?

More redistribution, weaker incentives

Stronger incentives, bigger divergences

Fundamental question about the nature of English governance

Technical details matter – and empirical analysis vital
Fair Funding Review (I)

Review of system of redistributing between councils

1. Updated and reformed assessments of councils’ spending needs
2. Updated assessments of revenue-raising capacity
   - Simple and transparent way of taking account of both

Most focus has been on spending needs assessments

- Proposal to base assessments of need for most areas apart from social care and public health on population only – hit poorer/urban areas?

But assessments of revenue-raising capacity and re-introduction of a functioning redistribution system likely to matter even more
Fair Funding Review (II)

Next stage of our work on Fair Funding will bring it all together

Initial work focusing on revenue-raising equalisation, and foundation formula suggests an interesting pattern...
Impact of resource equalisation (keep pilots)
Impact of population-only foundation formula
Fair Funding Review (V)

Remember still more to model / decide...

a. Need to consider updates to other spending needs assessments, new ACA method, etc.

b. Government may not opt to fully equalise on basis of revenue-raising capacity

c. Transitional arrangements / damping likely given magnitude of changes in some areas
Summary

• Large spending cuts mean spending on council services is at historic lows, measured as % of national income
• Council budgets increasing focused on statutory services, with social care and public health more than two-thirds of service budgets
• Still need to answer ‘what is local government for?’
  – Further cutbacks or new national or local revenue streams needed
    o Income tax the best option if significant tax devolution favoured
  – National solidarity and consistency, or local responsibility and discretion?
• Fair Funding Review – impact may not be what many people expect
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