

## Remember to look to your left and right: cross-border lessons for local government finance

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Sustaining Wales' Public Services: Austerity and Beyond  
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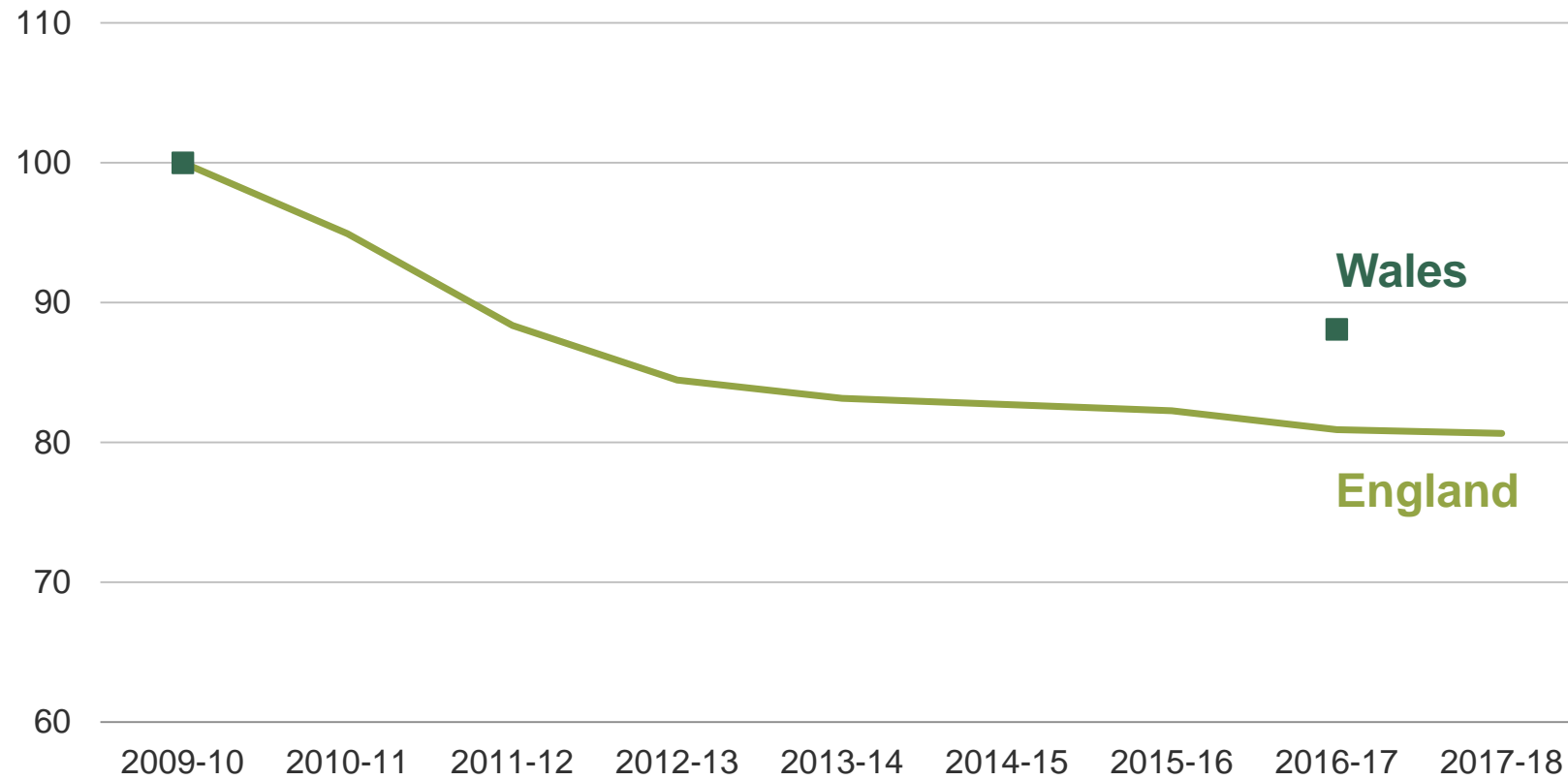
  
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# Big changes to councils' funding in England

1. Big cuts to overall funding levels, especially for more deprived areas

# Change to non-education spending

Real-terms (2009-10 = 100)



# Big changes to councils' funding in England

1. Big cuts to overall funding levels, especially for more deprived areas
2. Major changes to the funding system
  - i. Increasing importance of local tax revenues (inc. business rates)
  - ii. Increased ring-fencing of funding for adult social care
  - iii. Undertaking a review of needs and resource assessments
3. Councils, especially in metropolitan areas, are pushing for further tax and spending devolution

What can be learned by looking over the border?

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# The Business Rates Retention Scheme (BRRS)

# What is the BRRS?

- Increased reliance on local tax revenues driven by
  - Large cuts to grants from central government
  - Replacement of portion of grant funding with retained business rates
- Business rates retention scheme (BRRS) allocated 50% of rates revenues directly to local government from 2013-14
  - Does not mean individual councils keep 50% of local revenues
  - But they bear up to 50% of any real-terms changes in local rates revenues
  - ‘Safety net’ to compensate for large falls in revenues
- UK government planning expansion of scheme
  - 75% retention (and abolition of many grants) from April 2020
  - Currently piloting 100% retention in around half of England

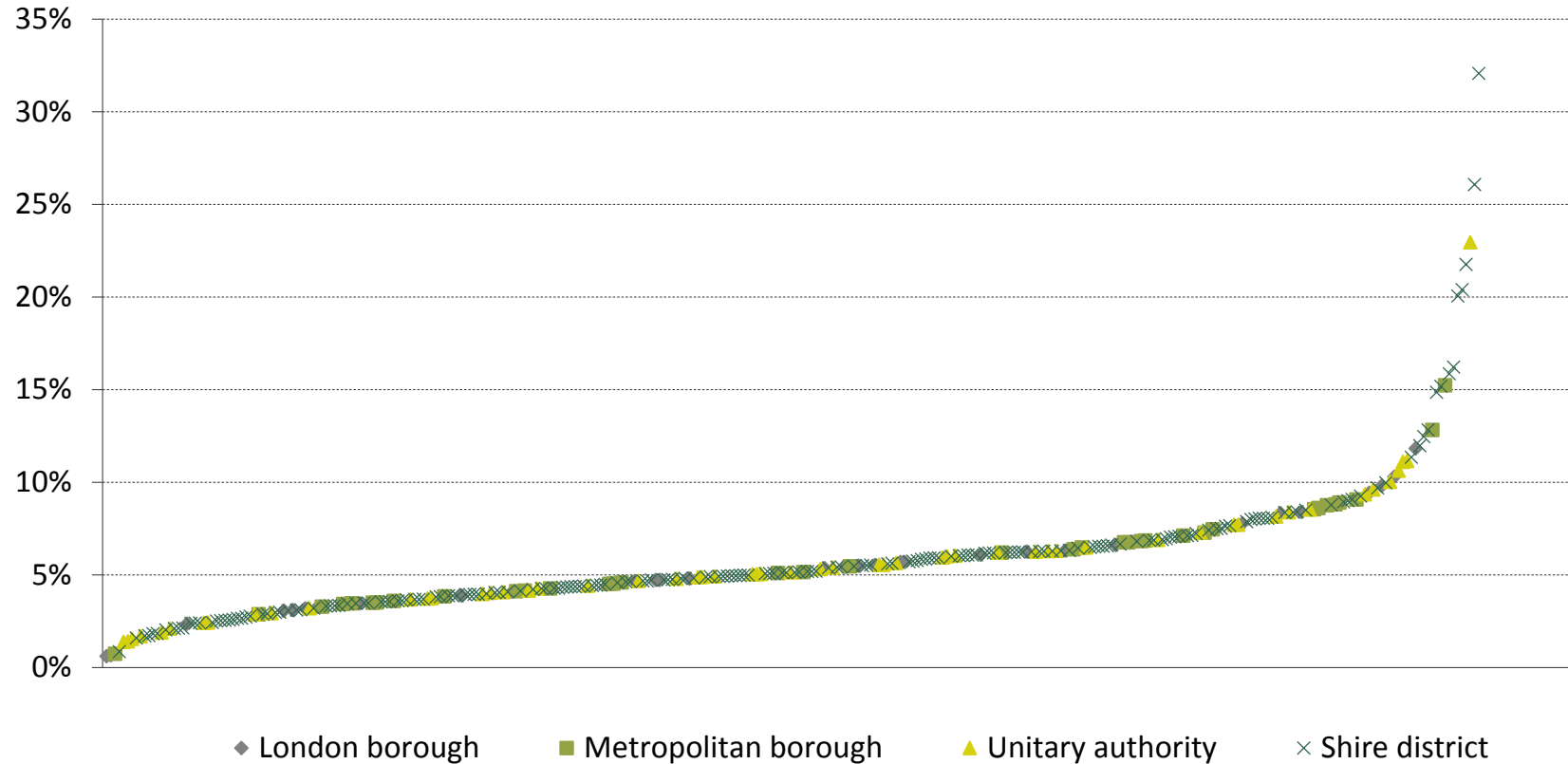
# The pros of the English BRRS

- Provide stronger incentives to councils for local development
  - Gain/lose as stock of non-domestic property increases/falls
- Councils like the BRRS – support move to 100% retention
  - Differences in opinions over how much and how frequent redistribution of revenues should take place
  - See intro of scheme as way to argue for extra funding
- Simpler & stronger incentives than proposed Swansea Bay scheme
  - Swansea scheme applies to ‘designated city deal developments’
  - English scheme applies to all developments, providing broader incentive



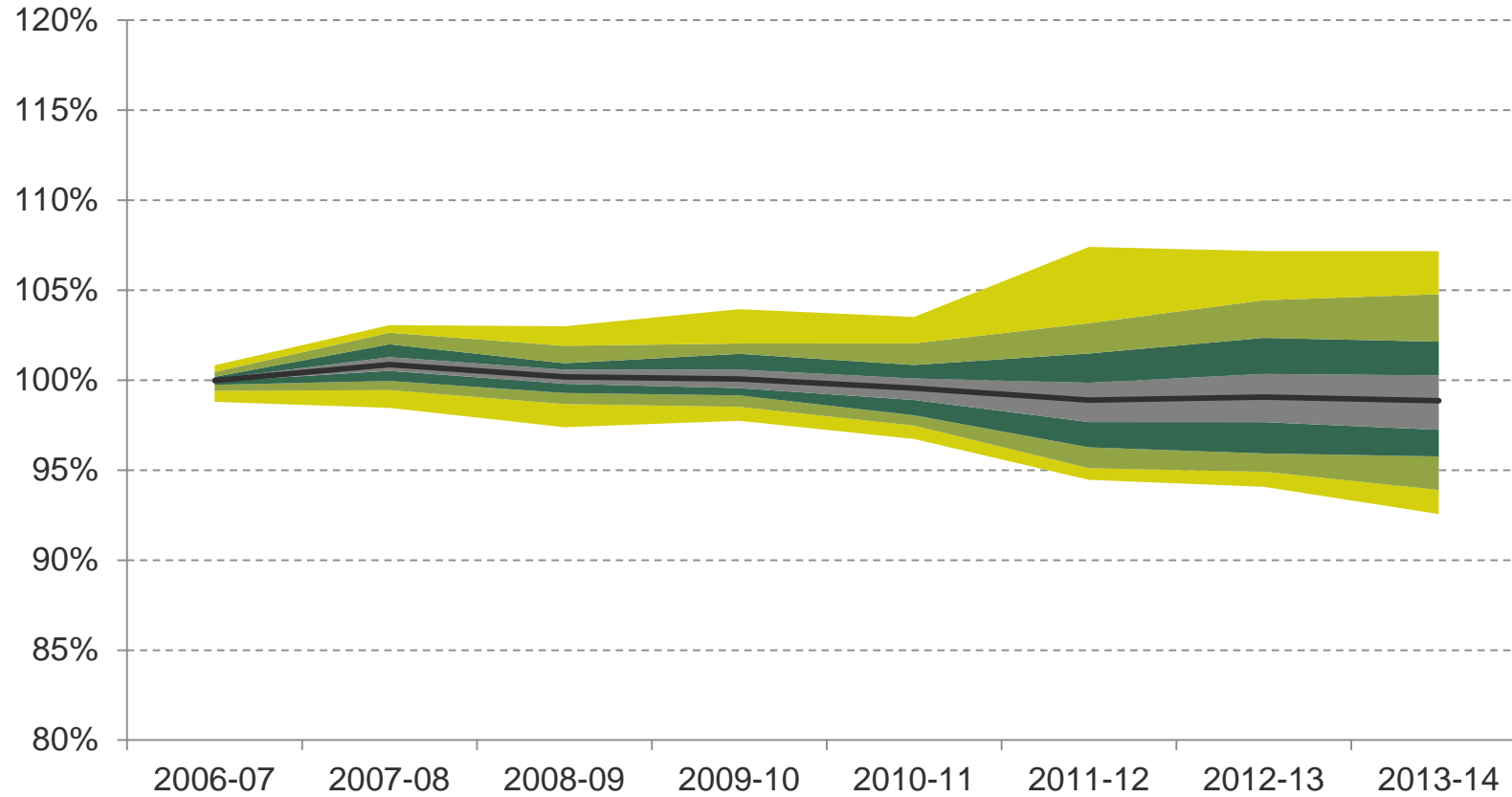
# Issues: business rates appeals

## Appeal provisions as % of business rates revenues, 2013-14 to 2015-16



# Issues: divergences in funding

## Evolution of relative funding ratios under a 100% BRRS, 2006-07 to 2013-14



# Issues: a boost to local economic performance?

## Relationship between business rates and economic (GVA) growth, 2010-2015



# Lessons from the BRRS for Wales

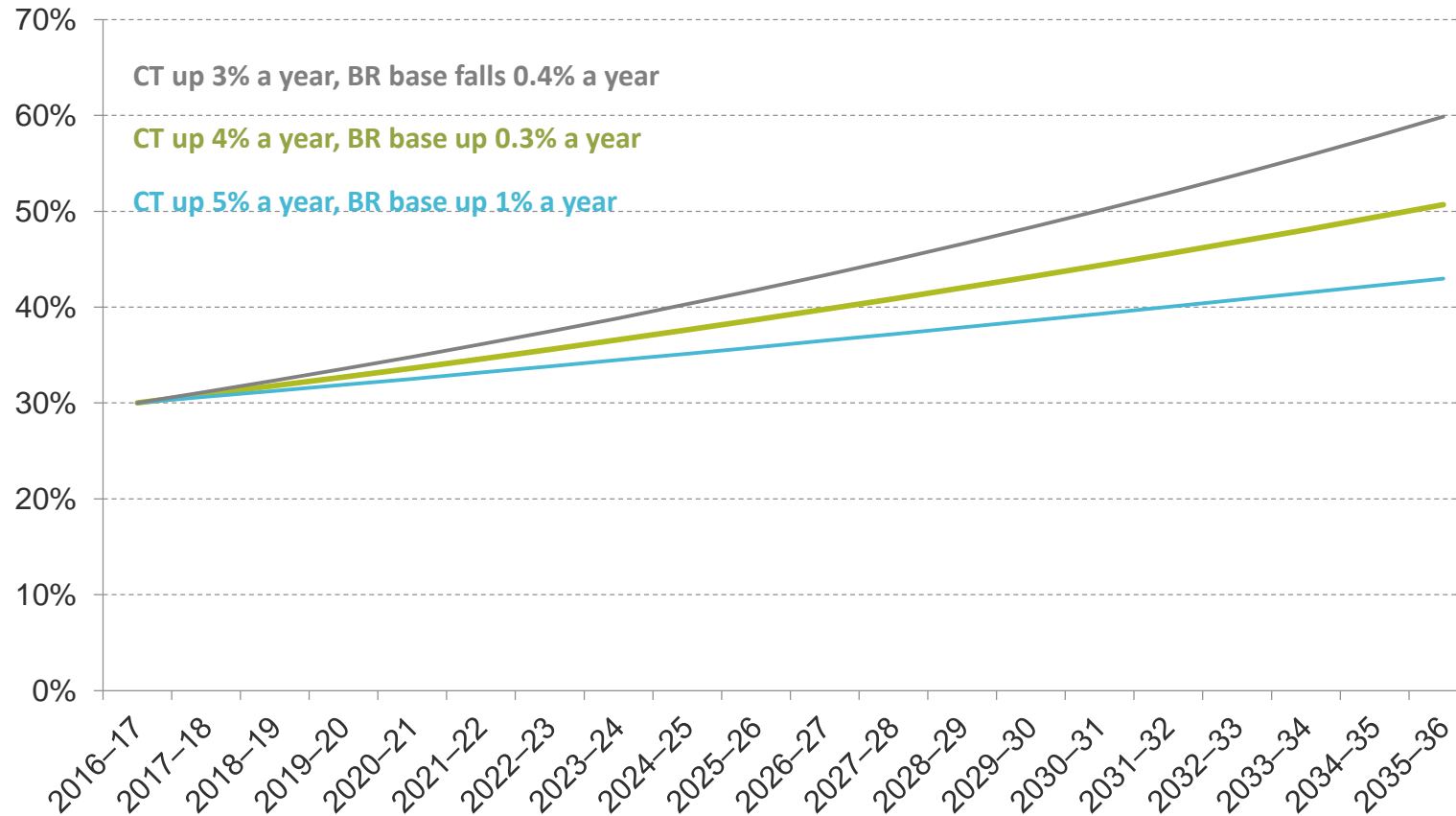
- Keep responsibility for dealing with cost of appeals centrally
- Need to decide appropriate level and degree of incentive/risk
  - Regional rather than local rates retention?
  - What % retention, frequency of resets, how it fits in with needs
  - Open approach with debate from councils, experts, etc. useful
- How would a Welsh BRRS fit with broader local tax plans?
  - Welsh Govt assessing a range of options for local taxes
  - Could broader tax devolution provide broader incentives to councils?

# How does Adult Social Care fit in?

## National and local funding tensions

- Shift towards greater local responsibility for funding services via local taxes conflicts with adult social care policy aims
- Nationally, council tax and rates revenues won't keep pace with costs

# Projections of adult social care spending as % of council tax and business rates revenues



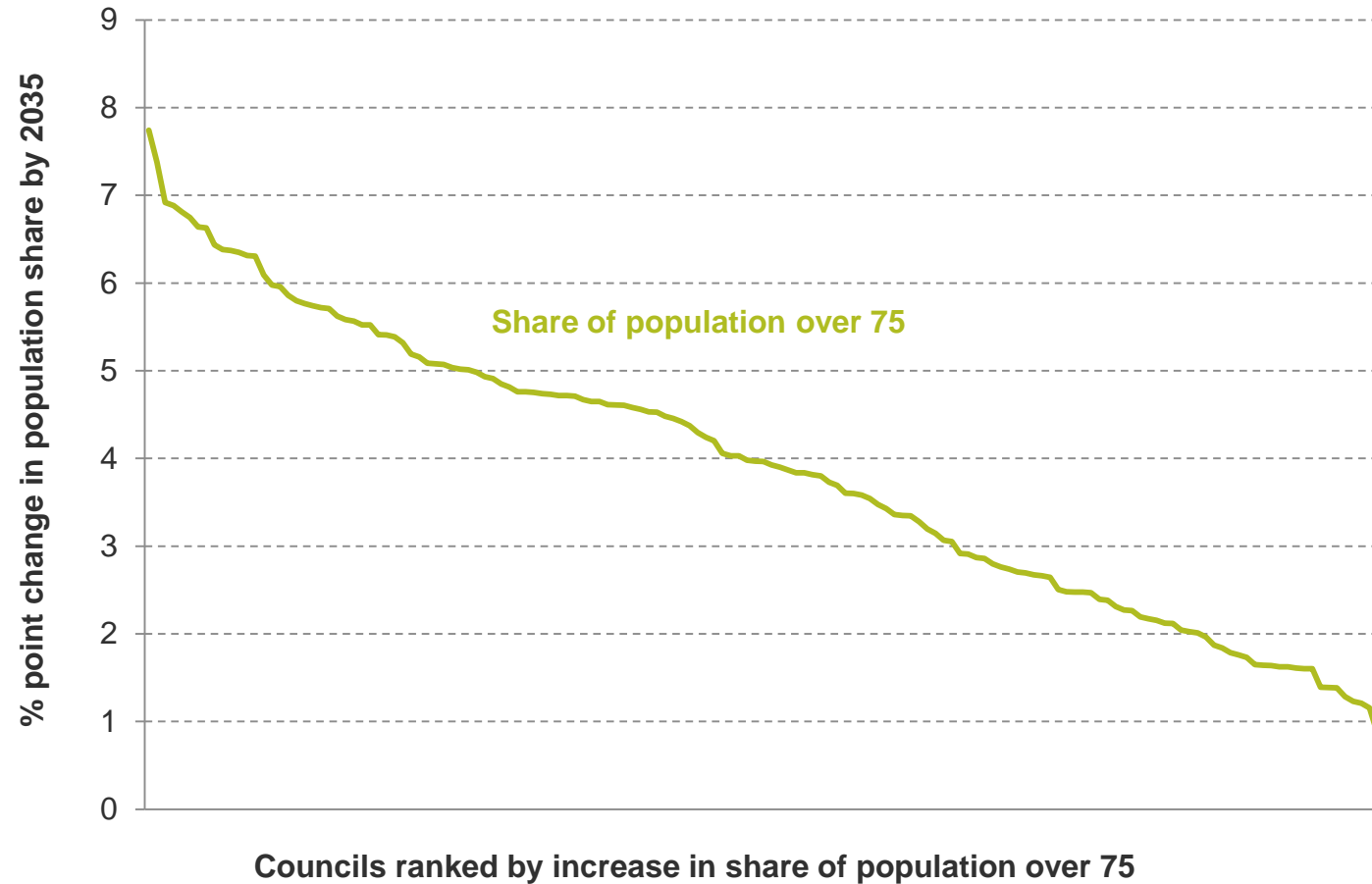
Source: Authors' calculations MHCLG revenue data and Wittenburg and Hu (2015) cost projections.

## National and local funding tensions

- Shift towards greater local responsibility for funding services via local taxes conflicts with adult social care policy aims
- Nationally, council tax and rates revenues won't keep pace with costs
- Locally, needs/tax revenues may evolve in very different ways



# Projected change in 75+ population



Source: Authors' calculations using ONS population projections.

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**Jeremy Hunt,**  
Health and Social Care Secretary

Part of [our plan] will be tackling the unacceptable variations in quality and outcomes between different services and different parts of the country

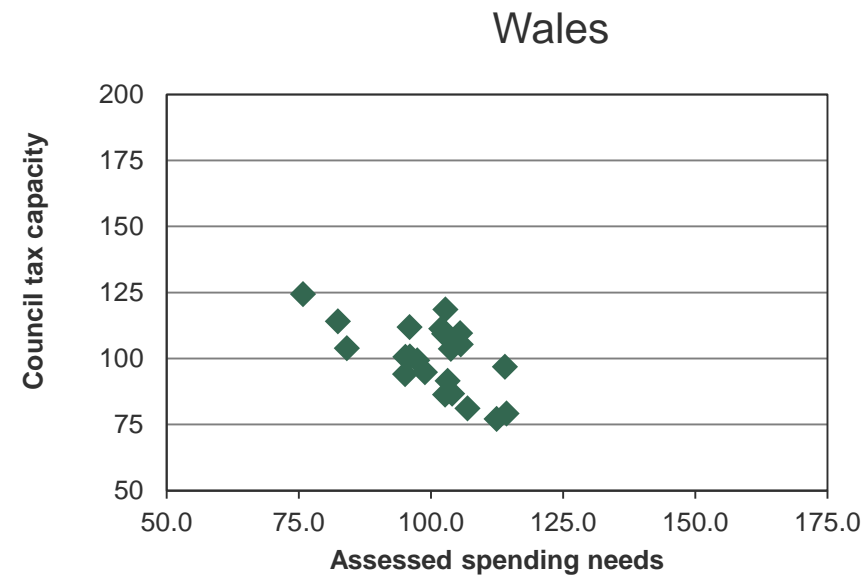
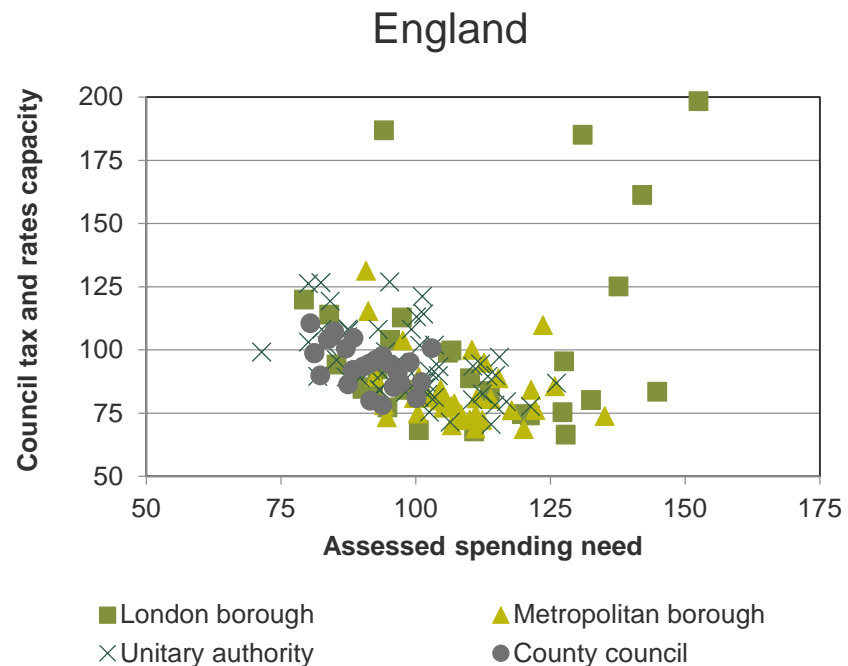
## A local or national responsibility?

- UK government has to decide whether adult social care in England is fundamentally a local or national responsibility
  - If local, councils will need additional revenues (grants or additional devolved taxes), but could have flexibility on service offer
  - If national with common service offer, then needs-based funding is required for local areas
- Wales is beginning to think how it can address social care challenge
  - ‘Paying for Social Care’, Gerald Holtham
  - Would such a scheme require shift towards common service offer across Wales, reducing local discretion?

# What is Fair Funding for councils?

# Revenue-raising capacity and spending needs

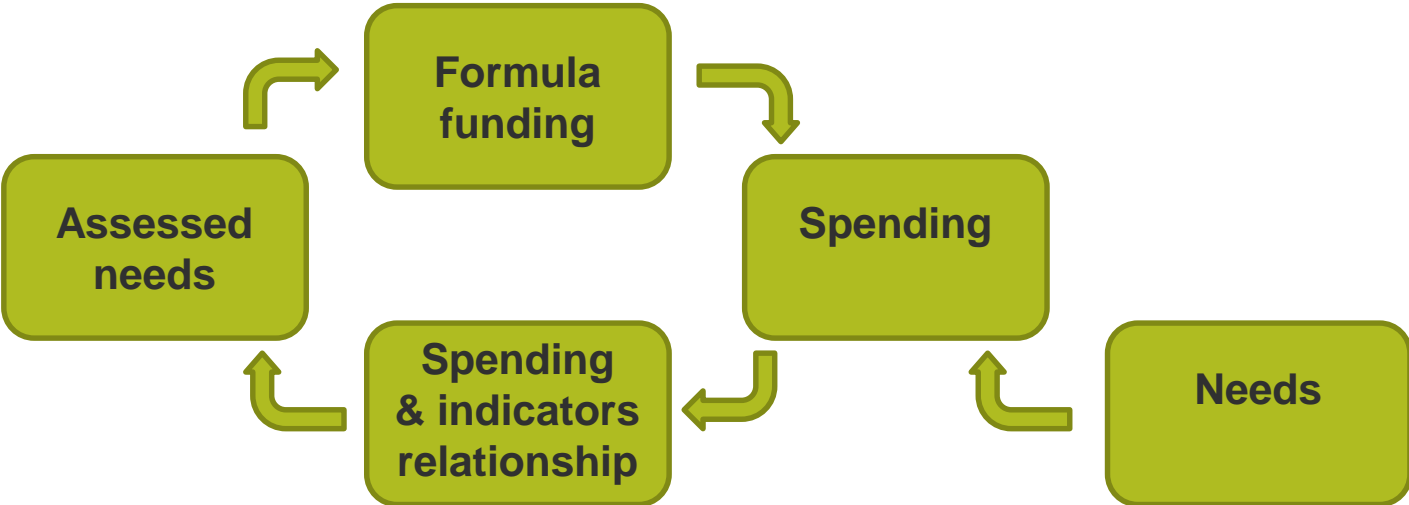
- English and Welsh council funding systems tried to offset differences in
  - Revenue-raising capacity
  - Cost/need for council services



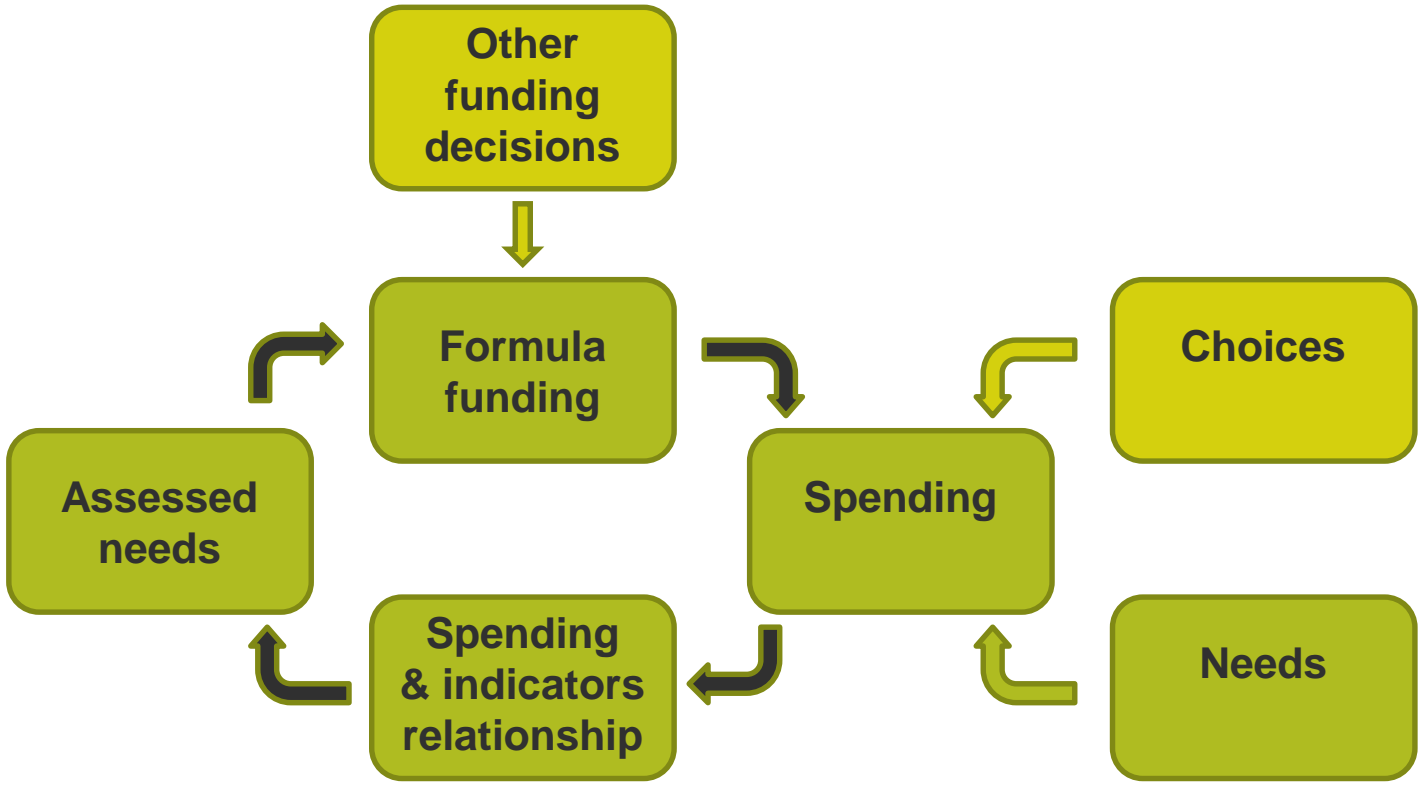
# England's Fair Funding Review

- Develop new formulae for assessing councils' spending needs
  - Fewer separate formulae, fewer variables in some cases
  - Estimate needs formulae using sub-council data where possible
- Update approach to working out revenue-raising capacity
  - More challenging given greater discretion on discounts/surcharges
- Clear and transparent approach for how two together determine councils' funding levels
- Wales has not undertaken a full review since 2001-02 Settlement
  - Social services formulae updated in mid 2000s

# Circularity and confounding factors



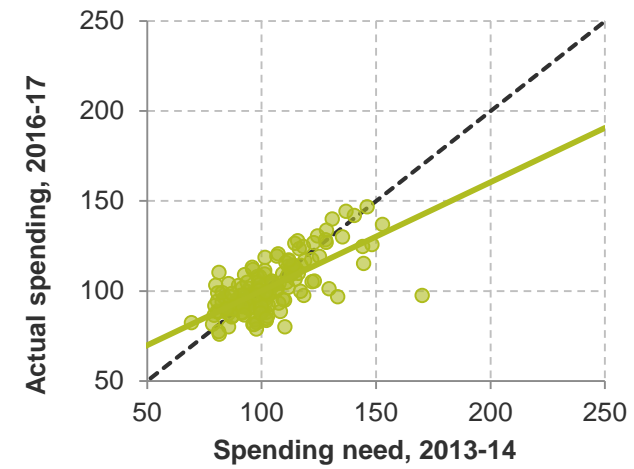
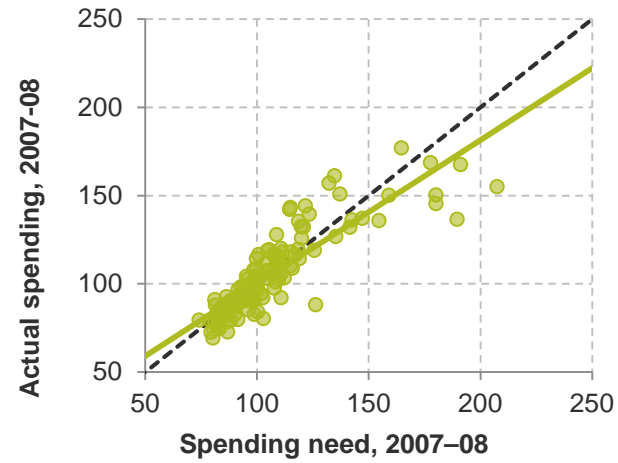
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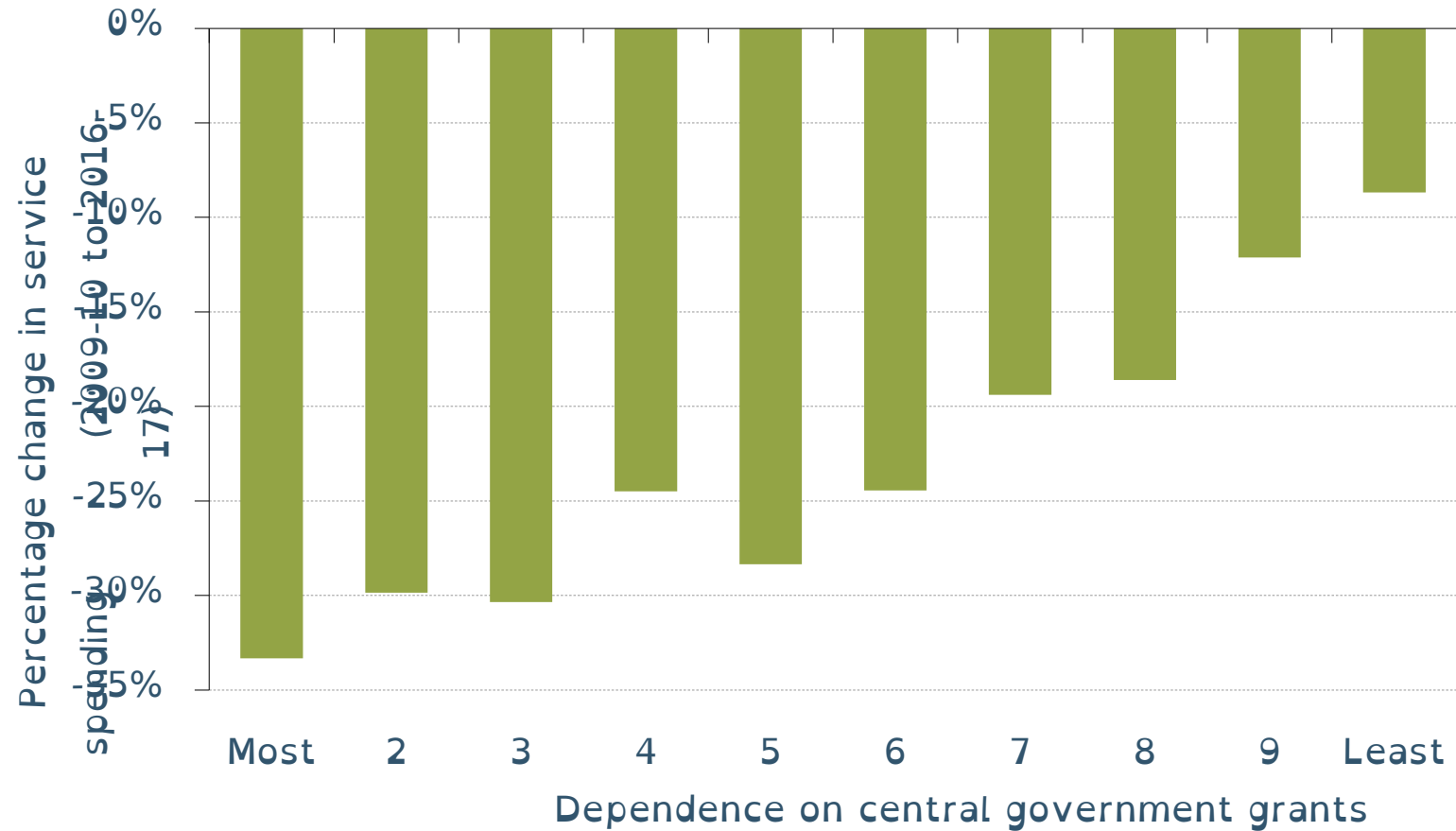


# Big issue for England...

England

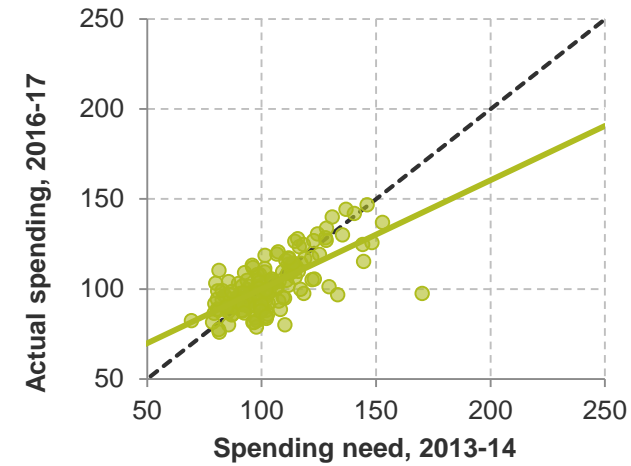
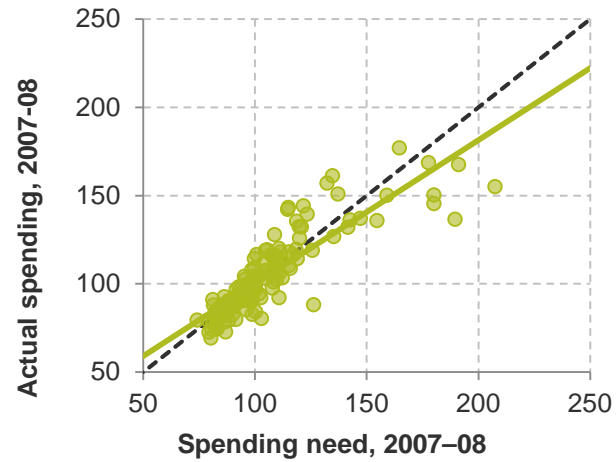


## English cuts have been much bigger for (needier) grant-dependent councils

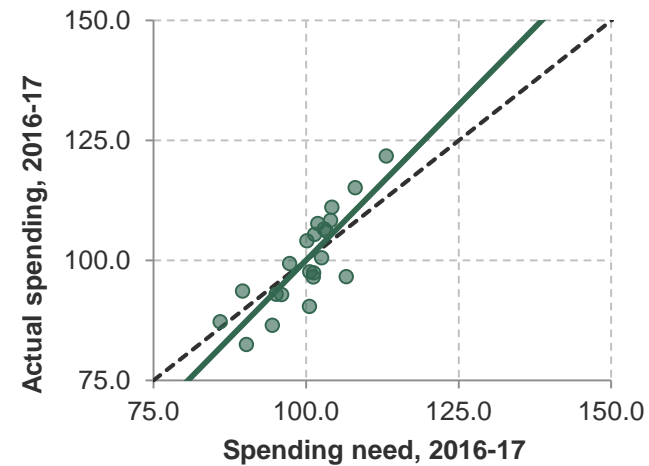
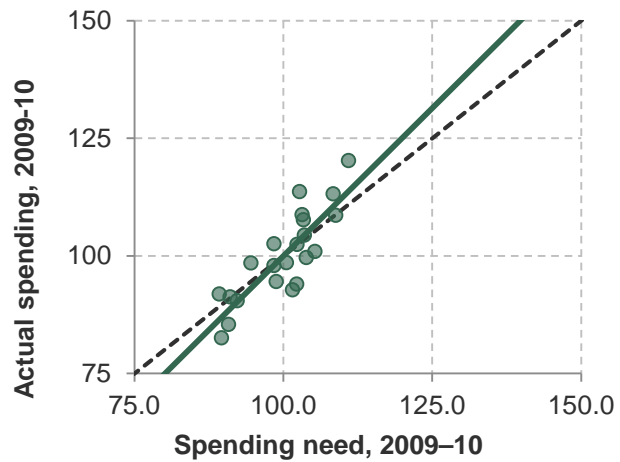


## ... Less clear for Wales

England



Wales



## Cross border lessons

- Opportunity/need to review formulae in Wales, esp. if move to smaller number of bigger councils?
  - Simplify with fewer formulae?
  - Estimate needs formulae using sub-council data where possible
- Should England move back to SSA approach used in Wales for determining grants based on needs and revenue capacity?
  - Clearer and better equalisation than former Four Block Model in England
- Could both learn from other countries?
  - Rather than 100% equalisation of needs/revenue capacity, allow for equalisation of e.g. 80% or 90% of differences?

# Summary

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- Lots of changes and big decisions looming in English local government finance
- Opportunity for cross border learning
  - Do better on business rates and consider broader tax devolution that provided broader fiscal incentives to local government
  - Think clearly about role of local and national government in different service areas – social services, schools
  - Update and improve approaches to redistributing between councils according to needs/revenue capacity

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