

What the future holds for local government

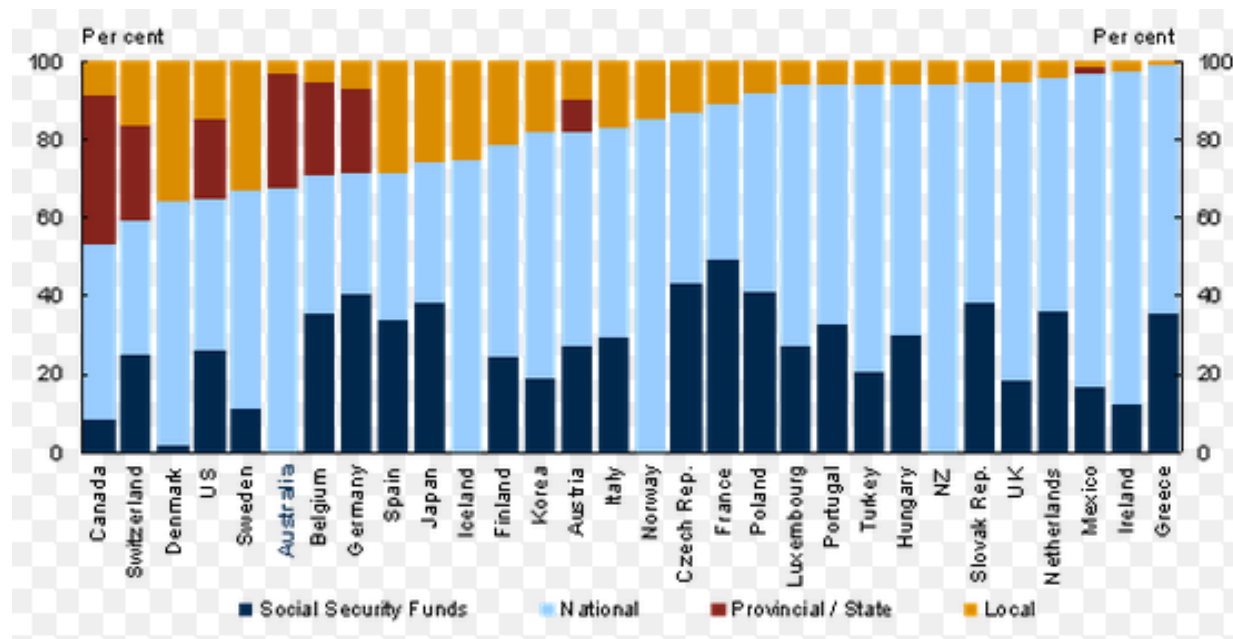
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Control of policy and finance

- UK has a very centralised public finance control system
- The Treasury sets virtually all taxes and distributes resources to departments, appointed bodies and local government
- Some use of formulae, eg NHS, local government
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- Rural authorities often fit less well in national formulae than 'average' ones
 - Also, many 'urban' factors have been added over the years
 - Local government funding now 'frozen' at 2013 relative need and resources levels with additional resources generated by growth

National and sub-national revenues

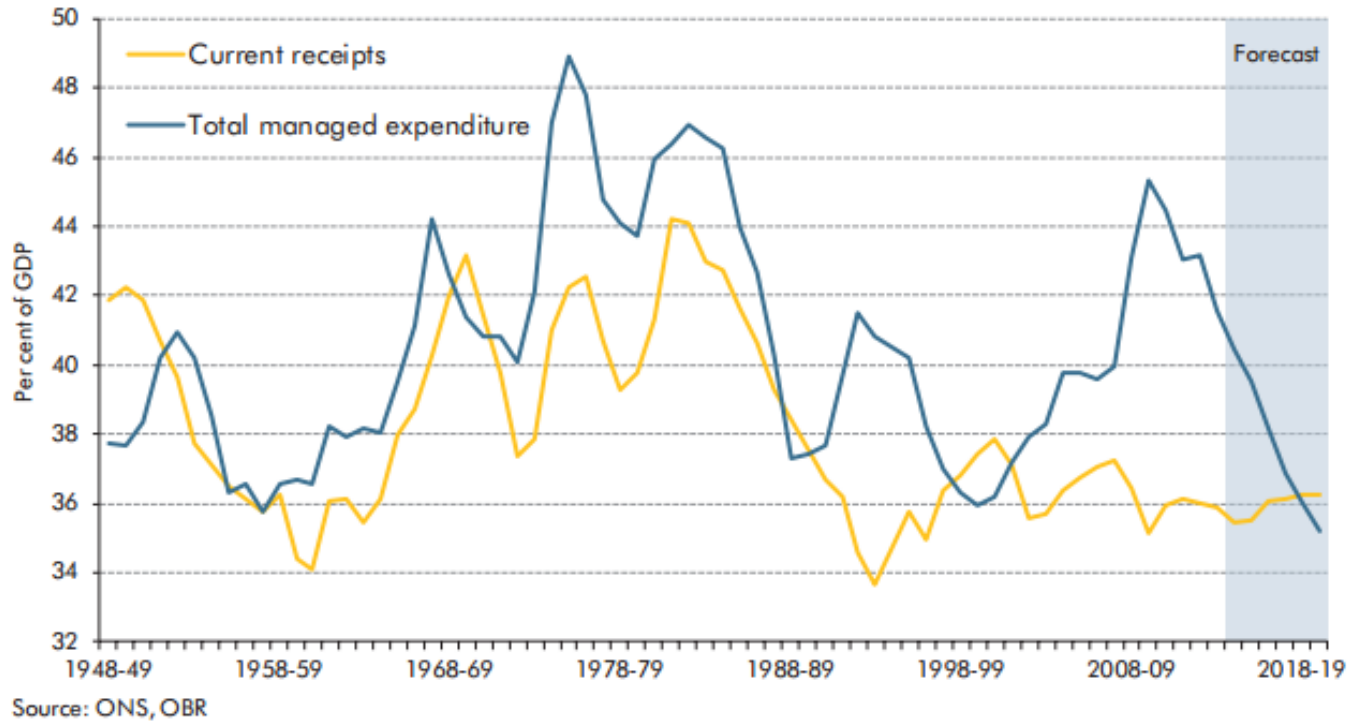


Source: OECD

UK public finances in the longer-term

- Many UK governments run deficits, and not only for 'Keynesian', counter-cyclical, reasons
- Politicians now find themselves, because of their weakened position, offering 'Sweden's public services with American taxes'
- UK tax receipts are stuck at c36-37% of GDP
- Current government's policy of having no deficit (or a surplus) by 2019 means spending cannot exceed receipts at that point

Taxation and public expenditure as % of GDP



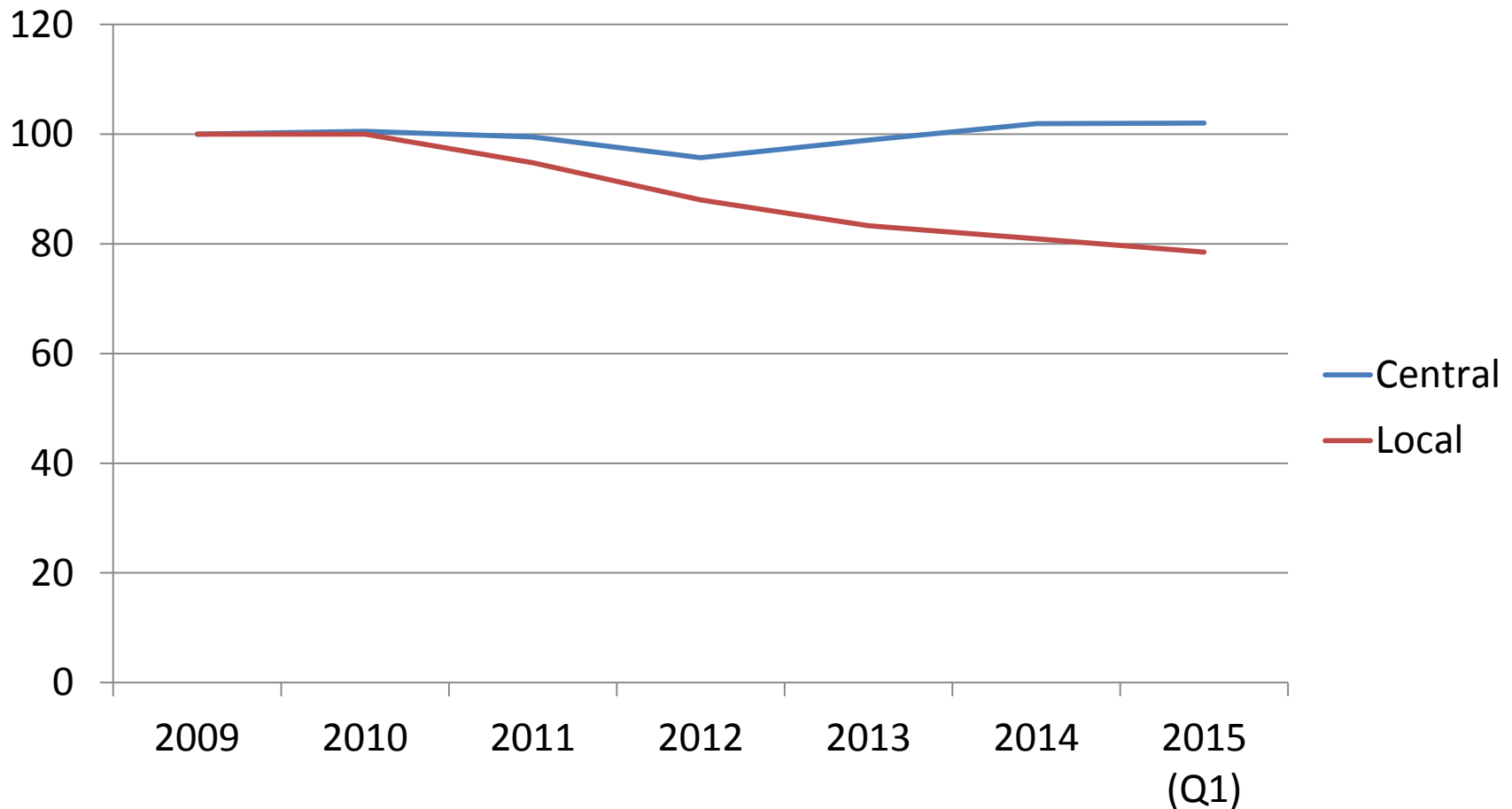
Source: Office for Budget Responsibility, *Economic and fiscal outlook Charts and Tables*, March 2014, Chart 1.1

Cutting the UK deficit

- A small part of public expenditure has borne most of the effort to reduce the deficit
- Borrowing up, welfare spending up, 'protected' spending up, interest charges unchanged
- 'Unprotected' services such as local government, police, Home Office and capital investment have been sharply cut
- The General Election did not change any of the underlying factors
 - Indeed, the protected services are now protected to 2020

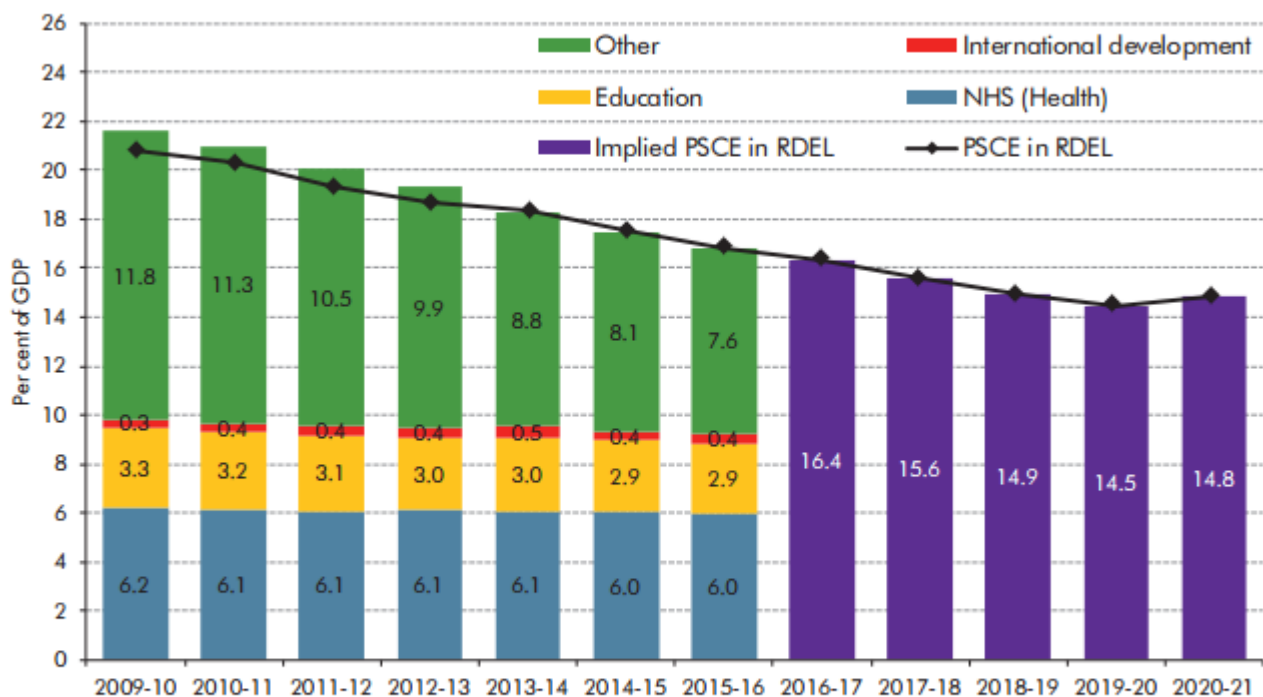
Public sector employment (UK)

- Central and local government



The future of 'unprotected' expenditure: Coalition plans (2015)

Chart 4.9: Resource DEL and implied resource DEL relative to GDP

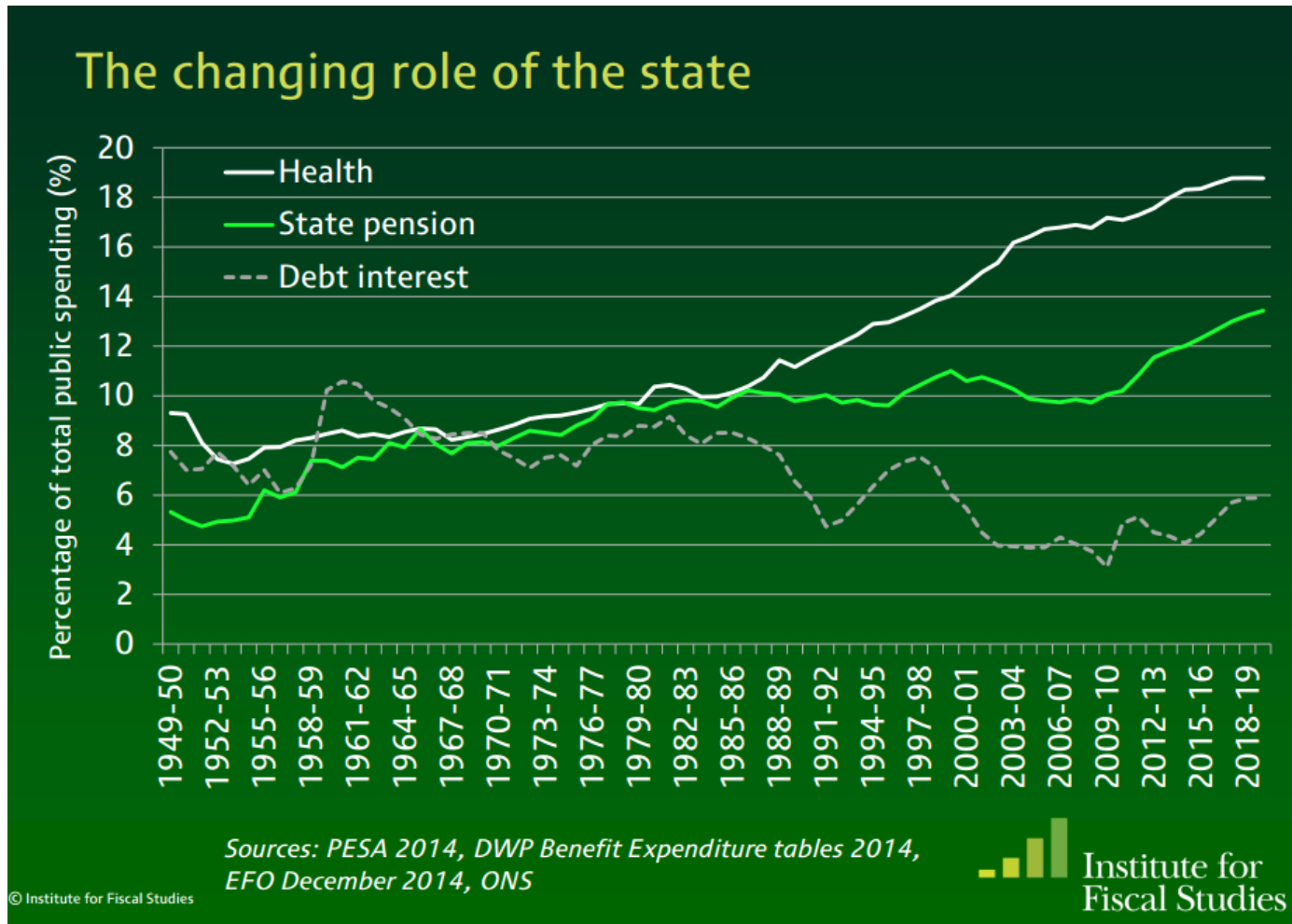


Note: The historical data in this chart have been adjusted for major discontinuities to produce a more comparable series. Details are in the supplementary fiscal tables on our website. In March, we adjusted for some of these discontinuities by adjusting the forecast series instead of the historical series. Our latest approach gives consistent forecast figures throughout the EFO. The previous approach added 0.6 per cent of GDP to RDEL on average between 2015-16 and 2019-20. This effect has now been removed, with historical data adjusted instead. Source: HM Treasury Public Expenditure Statistical Analyses, July 2014; HM Treasury Budget, July 2015; OBR

The State is changing: more welfare and less of everything else

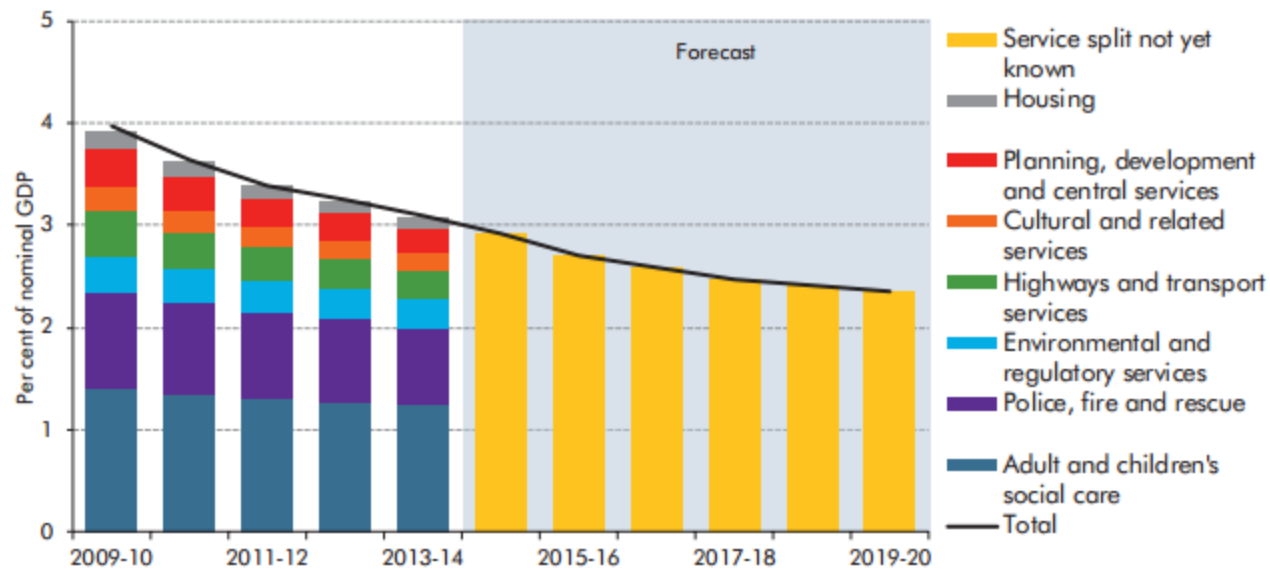
- The NHS is increasing within the State, as is welfare and education
 - Defence now guaranteed a 2% share of GDP
- Business, Home Office, Justice, Transport and local government all now in long-term decline
- Reducing public expenditure to 37% or even 35% of GDP will further raise the share of welfare within public expenditure

NHS and State pensions spending as % of public expenditure



OBR's projection of local government current expenditure, England

Chart 4.5: Local authority current spending in England



Source: DCLG, OBR

1. Total current spending excludes education and public health, where data are not comparable across years, and also excludes housing benefit, which is largely funded by central government. 2. Total spending from 2016-17 derived on the assumption that central government grants to local authorities decline in line with total implied PSCE in RDEL.

Local government current expenditure

- councils also have priorities

England	2009-10	2018-19	% change	
			cash	real
Highways & transport	6541	3110	-52.5	-59.7
Social care	20963	21885	+4.3	-11.4
- Children's	6396	7571	+18.4	+0.5
- Adults	14567	14313	-1.7	-16.6
Housing	2715	1346	-50.4	-57.9
Culture, env't, planning	11083	7105	-35.9	-45.6
- Cultural	3465	2083	-42.8	-49.0
- Environment	5308	4383	-17.4	-29.9
- Planning	2310	642	-72.2	-76.6
Police	12022	9502	-21.0	-32.9
Fire & rescue	2177	1971	-9.5	-23.2
Central services	3771	2700	-28.4	-39.2
Total - cash	59272	47623	-19.7	
Total - real	59272	40418		-31.8

Sources: (i) 2013-14 expenditure figures taken from DCLG *Local authority revenue expenditure and financing statistics 2009-10*; (ii) 2018-19 expenditure figures estimated by applying annual average cash percentage changes for each service from 2009-10 to 2013-14 to the period 2013-14 to 2018-19. Note: service-by-service figures scaled to fit total; , (iii) GDP deflator: (i) *Public Expenditure Statistical Analyses 2014*, Table F2 and OBR, *Economic and Fiscal Outlook charts and tables* – March 2014, table accompanying Chart 3.27;

Devolution to city and county regions

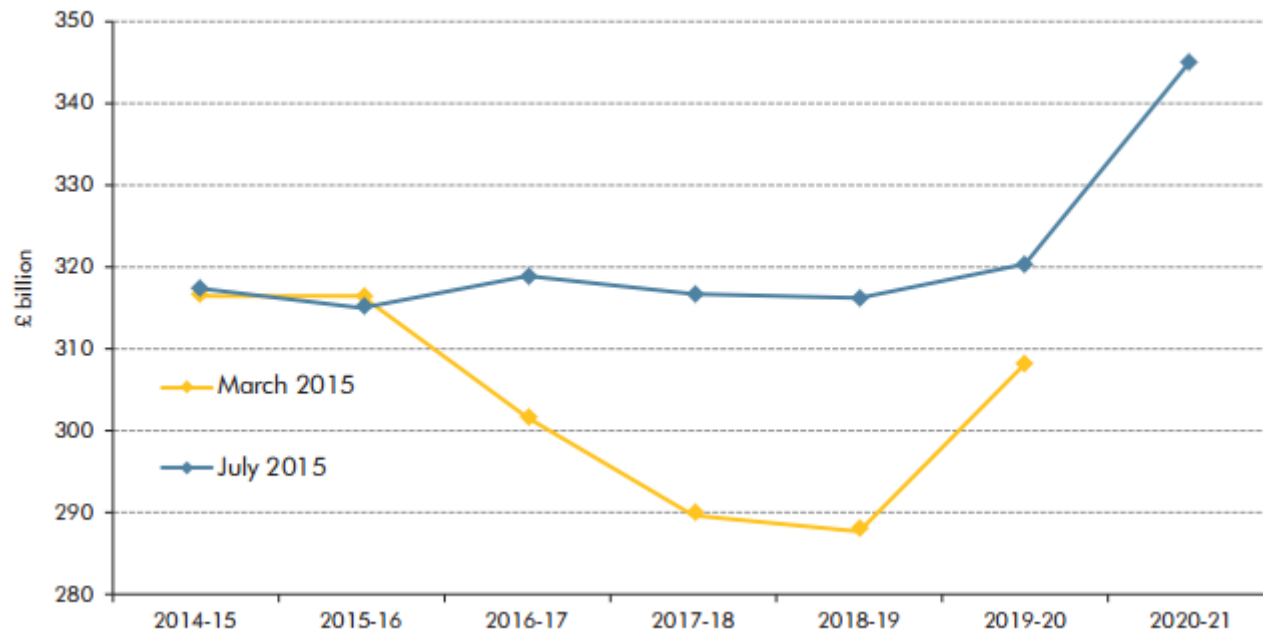
- Additional powers for combined authorities which accept directly-elected mayors
- Includes counties/districts
 - NHS devolution to Cornwall...
- But clearly aimed mostly at cities
- Is this:
 - A modest change affecting Greater Manchester and a few other 'city regions' and Cornwall?
 - The start of a major transfer of spending power to sub-national government in England?

Summer Budget, 2015

- Confirmed '36%' State, but by 2019-20 not 2018-19
- Slightly moderated path of spending pressures during the three years 2016-17 to 2018-19
 - See following chart
- From 2019-20, assuming no unexpected downturn, public spending may return to growth in line with GDP
 - But, the NHS, pensions still likely to grow in real terms
 - Subsequent government announcement about Syrian asylum seekers
 - Dispersal policy? Allocation of resources?

Changing profile of current spending on services

Chart 4.5: Resource DEL spending in cash terms



Source: OBR

Opportunities

- Likelihood that there will be more joint provision
 - NHS and social care
 - Devolution model to evolve
 - More areas to receive devolved funding?
 - Change can provide the impetus to improve....
- Development of improved joint working between authorities
 - Greater use of private sector
 - Need for improved procurement, contracting

Rural services - 1

- Rural authorities on average have lower expenditure levels, but higher council tax
 - though since 2010 grants have fallen relatively faster in inner city councils
- The current local government finance system is 'frozen' and there are few opportunities to lobby for change
- Efforts probably best aimed at broad 'fairness' issues

Rural services - 2

- ‘Fairness’ issues include:
 - Broadband access and speed
 - Public transport
 - Schools
 - Health provision, especially GPs
 - Quality of local roads
 - Policing
 - Impact of LG expenditure cuts on smaller districts and....
 - Being a part of any devolution reforms

The future

- The UK is moving towards a position where public expenditure will be 36% of GDP, well below the 1980s-2000s average of c42-43%
- No party willing to raise taxation on most earners
 - State cannot now grow above long-term tax % [c36% of GDP]
 - Unless there were a radical and unexpected change in approach
- Where next for rural councils and their partners?
 - Keep local government finance system under review
 - Ensure the impacts of 'austerity' on rural areas are differentiated from general effects
 - Prepare for a smaller State where priorities may be different

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