

Local government futures and innovation

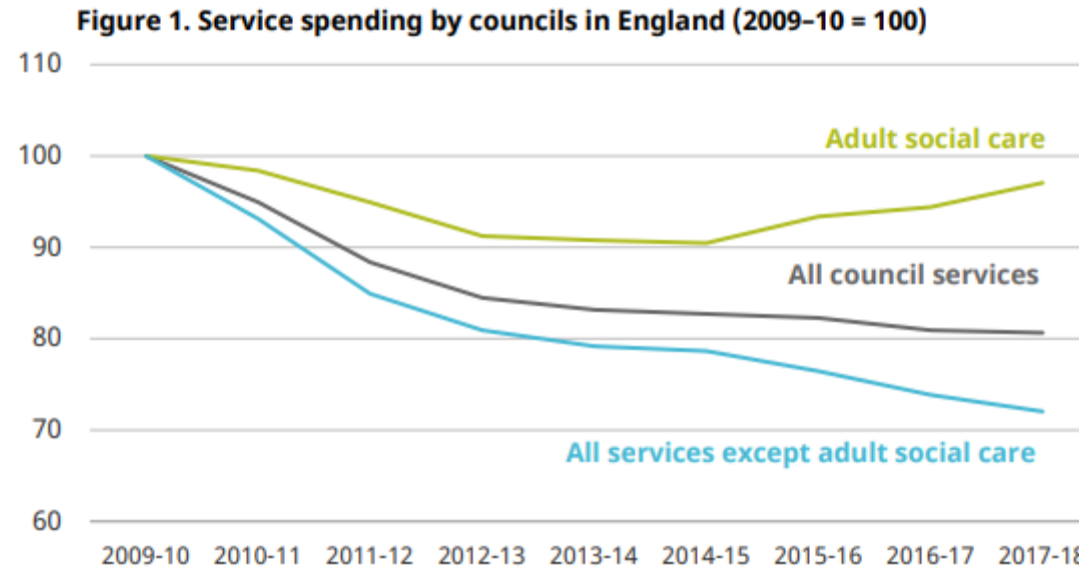
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The recent past

Local government expenditure

2009-10 to 2017-18



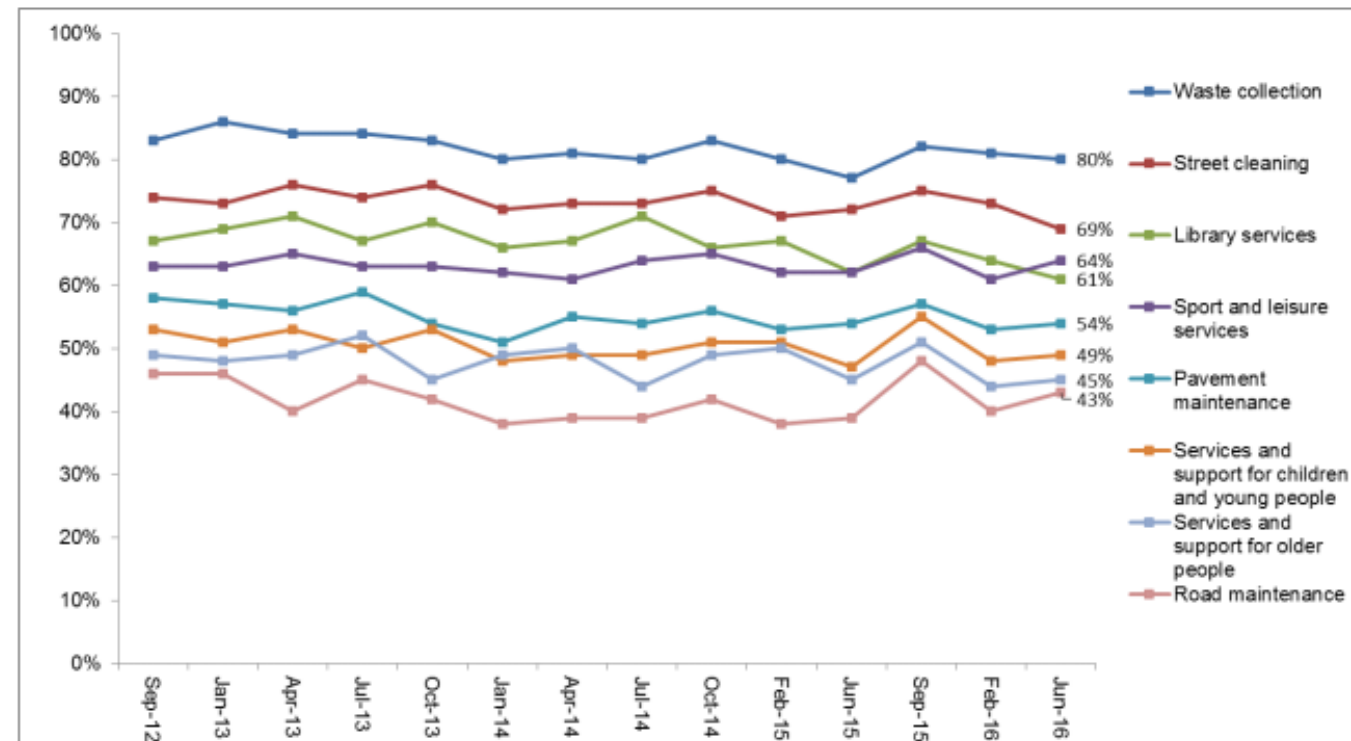
Note: Local authority service spending excludes spending on education, police, fire and public health. It includes spending funded by NHS transfers (i.e. the Better Care Fund). See methodology annex for more details

Source: IFS

Satisfaction with services has been sustained

- almost...

Figure 13: Proportion very or fairly satisfied with each service: September 2012 – June 2016



Base (all respondents): 1,001 British adults in June 2016

....and, the public quite likes councils

Table 1: Overall, do you think that the media has viewed the following positively or negatively in the last few months?											
Round:		5	6	7	8	9	10	11	12	13	14
		Oct	Jan	Apr	Jul	Oct	Feb	Jun	Sep	Feb	Jun
		2013		2014		2015		2016			
		%									
The Government	Positively	20	24	16	19	17	22	29	27	23	15
	Neither positively/negatively	20	23	29	26	30	29	29	27	34	26
	Negatively	54	49	51	54	49	47	40	43	40	56
	Don't know	5	4	4	2	4	2	2	3	3	3
Local councils across the country	Positively	24	26	22	21	19	22	23	24	15	19
	Neither positively/negatively	29	28	39	36	42	34	43	41	50	41
	Negatively	34	37	30	36	32	40	30	29	29	33
	Don't know	13	9	9	7	7	5	5	6	6	7
Your local council	Positively	36	37	32	35	31	33	32	35	22	28
	Neither positively/negatively	30	32	40	36	43	39	44	41	53	46
	Negatively	25	24	21	23	19	23	19	18	20	20
	Don't know	9	7	7	6	7	5	4	5	6	7

Base (all respondents): 1,001 British adults in June 2016

Local Government Association *Polling on resident satisfaction with councils* July 2016

IFG *Performance Tracker*, 2017

- Reductions in spending till 'crisis', then announce sudden extra resource boost

The Government's failure to make successful transformative changes, or make explicit national decisions on the quality or scope of services, has left it trapped in a reactive cycle: allowing problems to mount, being confronted with a crisis (practical or political) and being left with the only option of injecting emergency cash.

This report makes it clear where the risk of continuing that cycle is greatest: in prisons, hospitals, schools and adult social care.

- In **prisons and hospitals**, the Government has little choice but to put in more money. Hospitals are set to continue running a deficit – the question is whether the Government wants to allow that overspend, or put in the cash up front. In prisons, with a serious operational crisis under way, and no policy changes on the horizon to reduce prisoner numbers, the Government needs to do whatever it can to recruit and retain prison officers as a matter of urgency.
- In **schools and adult social care**, the Chancellor has already made emergency cash injections. This will allow the services to carry on operating in much the same way in the short term. But these 'sticking-plaster' solutions have a time limit. If the Government does not want to have to return with more money in a few years' time, it will need to start preparing the ground for genuine changes to the way these services are delivered or funded. The same goes for **hospitals**: the Government will need to make good on the transformative promises of the Sustainability and Transformation Plans (STPs) if it wants to break out of the deficit spending cycle.

Core 'Spending Power'

- one more year of figures set in the most recent Spending Review

Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment ²	21,249.9	18,601.5	16,632.4	15,598.8	14,584.3
Council Tax of which;	22,035.9	23,247.3	24,623.2	26,082.1	27,629.0
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	22,035.9	22,858.5	23,789.7	24,760.7	25,773.5
<i>Potential additional revenue from referendum principle for social care</i>	0.0	381.8	814.2	1,289.6	1,811.5
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.0	7.0	19.4	31.7	44.0
Improved Better Care Fund	0.0	0.0	1,115.0	1,499.0	1,837.0
New Homes Bonus ³	1,200.0	1,485.0	1,251.9	938.0	900.0
Rural Services Delivery Grant	15.5	80.5	65.0	50.0	65.0
Transition Grant	0.0	150.0	150.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	241.1	0.0	0.0
Core Spending Power	44,501.3	43,564.2	44,078.6	44,167.8	45,015.3
Change over the Spending Review period (£ millions)					514.0
Change over the Spending Review period (% change)					1.2%
Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Spending Power.					
¹ The figures presented in Core Spending Power do not reflect the changes to Settlement Funding Assessment made for pilot authorities. For information about pilots please refer to the Pilots Explanatory Note. For the Settlement Finance Assessment figures after adjustments for pilots please see Key Information for Local Authorities.					
² 2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment.					
³ New Homes Bonus allocations for 2018-19 and 2019-20 are for illustration purposes only. Actual payments will depend on housing delivery and are subject to change.					

Core 'Spending Power'

- adjusted to reflect additional adult social care funding and cost of children's social care

Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Core Spending Power	44,501.3	43,564.2	44,078.6	44,167.8	45,015.3
Additional resources for adult social care	0	381.8	2,170.3	2,788.6	3,648.5
Core spending power less additional resources for adult social care	44,501.3	43,182.4	41,908.3	41,379.2	41,366.8
Children and Families social care*		7,835	8,028	8,570	8,938**
Core spending power less additional resources for adult care and Children and Families social care		35,347.4	33,880.3	32,809.2	32,428.8

←
'Spending
minus adu
continues
in cash t

Sources: (1) 'Core Spending Power' : MHCLG; 'Children and Families social care': (2) MHCLG Local authorities revenue and financing statistics (budgets);
(3) All other figures author's calculations

How governments have sought to deliver efficiency and effectiveness

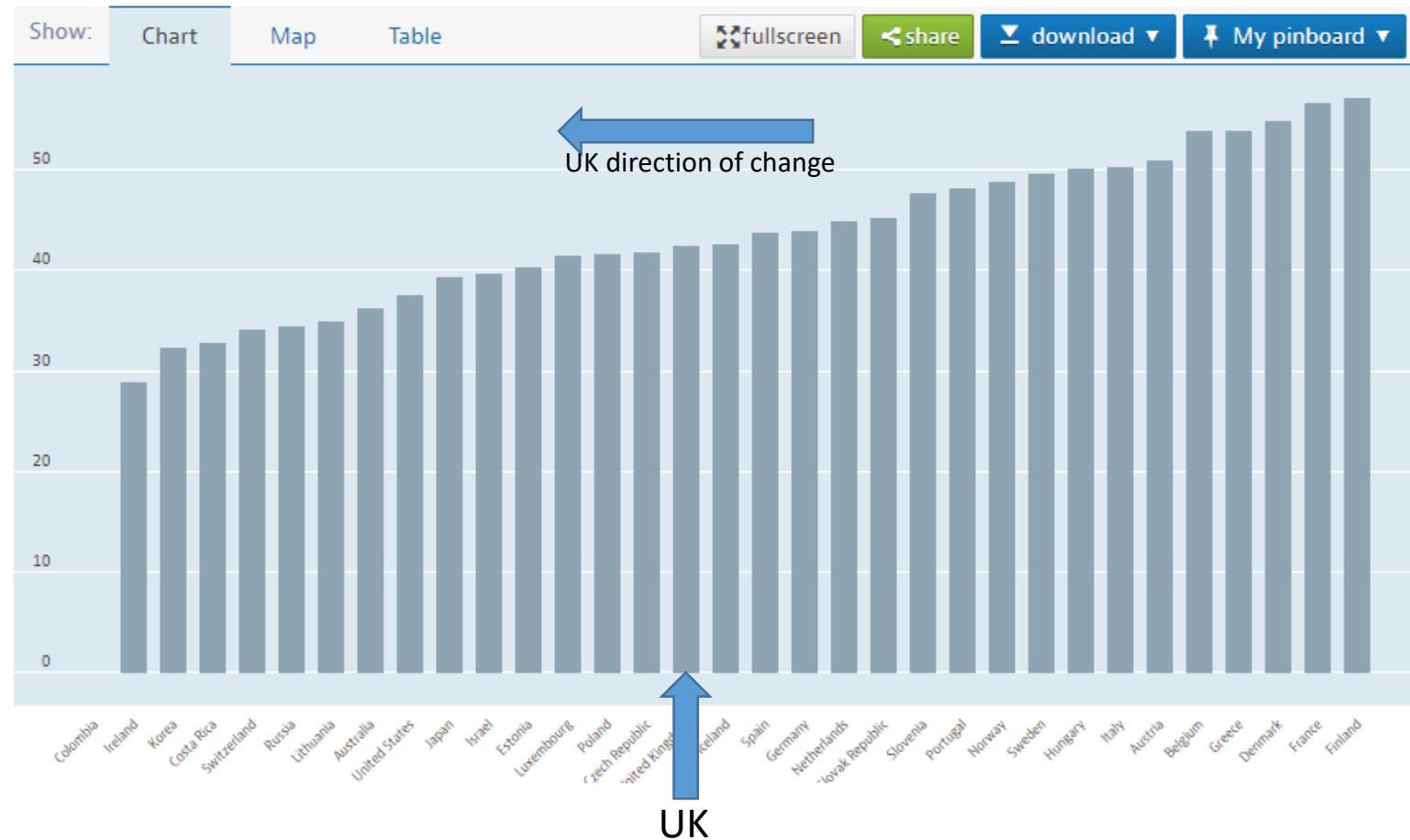
- Reorganisations
 - Whitehall departments, NHS, quangos, local government [NB Northamptonshire]
- 'Market forces'
 - Free-standing and self-governing NHS trusts, schools etc with per capita funding
- Privatisation/contracting out
 - Extension of use of major companies to drive down costs and share risk
- PPPs/PFIs
 - More complex contractual and risk-sharing arrangements, involving long-term contracts
- Audit
 - NAO, (Audit Commission), regulators, 'armchair auditors'
- Reducing expenditure
 - Driving improvement by innovation brought about by reducing budgets

Looking ahead

Public expenditure as a % of GDP (2015)

General government spending Total, % of GDP, 2015

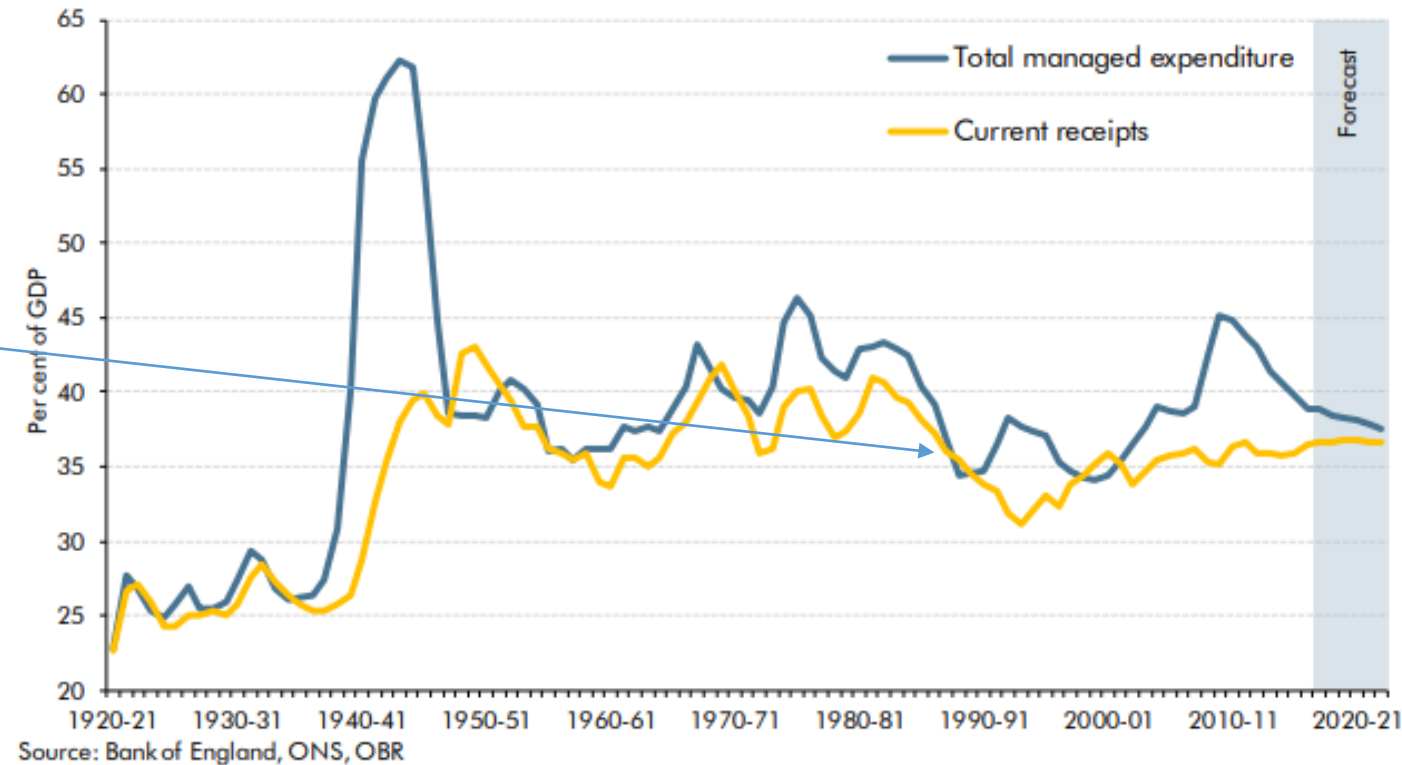
Source: National Accounts at a Glance



Successive governments have not been able to raise receipts above 37% of GDP

Chart 4.12: Total public sector spending and receipts

**Current receipts
have not been
above 37% of GDP
since 1989-90**



Source: OBR

OBR receipts projections

2017-18 to 2067-68

Table 3.12: Non-interest receipts projections

	Per cent of GDP						
	Estimate ¹		FSR projection				
	2017-18	2022-23	2027-28	2037-38	2047-48	2057-58	2067-68
Income tax	8.8	9.1	9.1	9.0	9.1	9.1	9.1
NICs	6.4	6.5	6.4	6.3	6.3	6.3	6.2
Corporation tax	2.7	2.4	2.4	2.4	2.4	2.3	2.3
VAT	6.1	6.1	6.2	6.2	6.2	6.2	6.2
Capital taxes	1.5	1.6	1.6	1.6	1.7	1.7	1.7
Other receipts	10.7	10.4	10.4	10.4	10.5	10.5	10.5
Receipts²	36.3	36.1	36.0	35.9	36.0	36.1	35.9

¹ Receipts consistent with the March 2018 *Economic and fiscal outlook*.

² Excludes interest and dividends.

Source: OBR *Fiscal sustainability report* July 2018

OBR spending projections

2017-18 to 2067-68

Table 3.10: Non-interest spending projections

	Per cent of GDP						
	Estimate ¹		FSR projection				
	2017-18	2022-23	2027-28	2037-38	2047-48	2057-58	2067-68
Health	7.1	7.6	8.3	9.9	11.3	12.6	13.8
Adult social care	1.2	1.3	1.4	1.6	1.8	1.9	1.9
Education	4.3	4.1	4.0	3.8	3.8	3.9	3.8
State pensions ²	5.1	5.0	5.0	5.9	6.3	6.6	6.9
Pensioner benefits	0.8	0.8	0.9	1.1	1.3	1.3	1.3
Public service pensions	2.0	2.1	2.1	1.8	1.6	1.6	1.5
Total age-related spending	20.5	20.9	21.7	24.2	26.0	27.8	29.2
Other welfare benefits	4.8	4.5	4.5	4.3	4.2	4.2	4.2
Other spending	11.4	11.0	10.9	11.0	11.2	11.2	11.2
Spending³	36.7	36.4	37.1	39.4	41.4	43.3	44.6

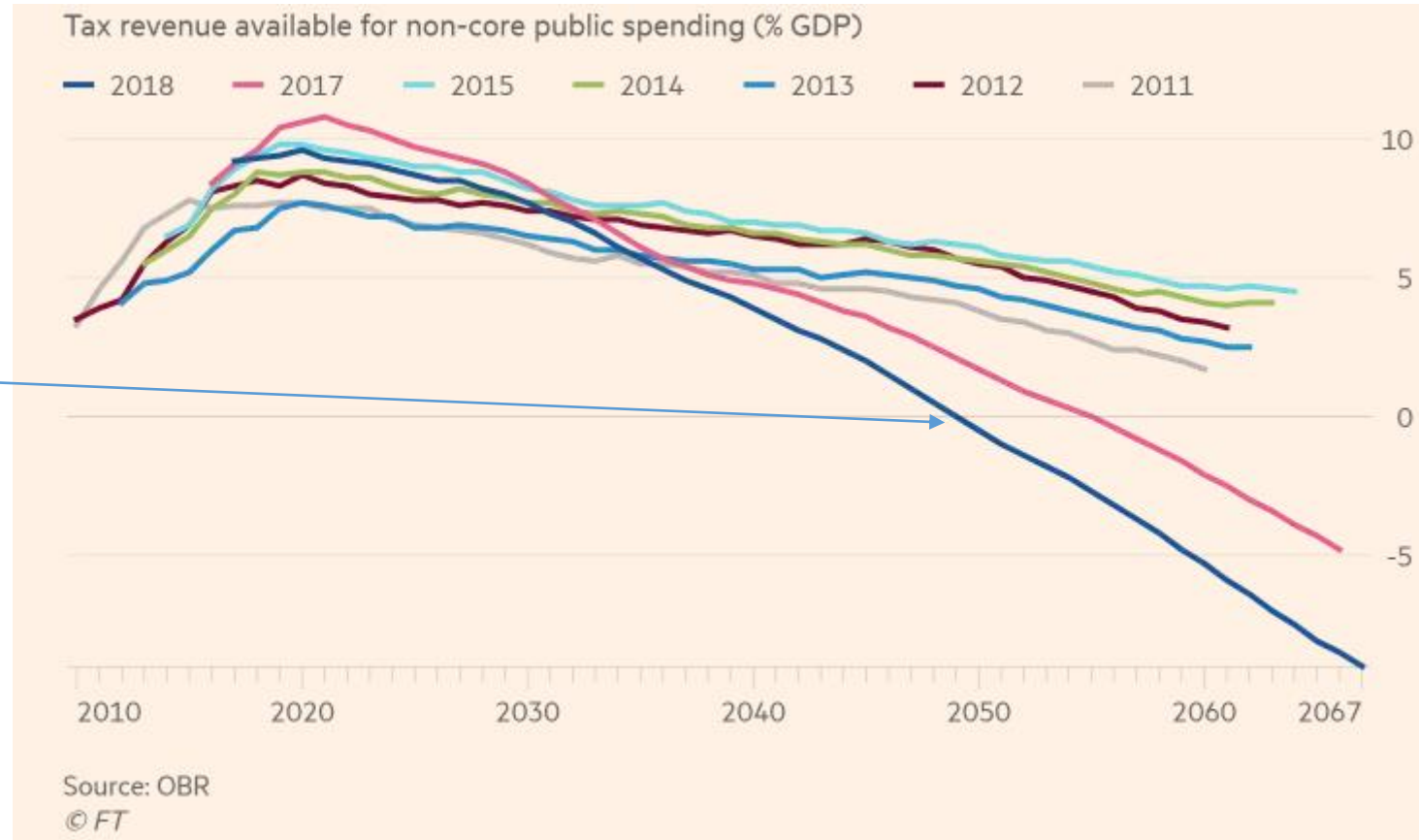
¹ Spending consistent with the March 2018 *Economic and fiscal outlook*.

² Includes many items in addition to the basic state pension and single-tier pension, such as pension credit, winter fuel payments and the Christmas bonus.

³ Excludes interest and dividends.

Source: OBR *Fiscal sustainability report* July 2018

National 'graph of doom'



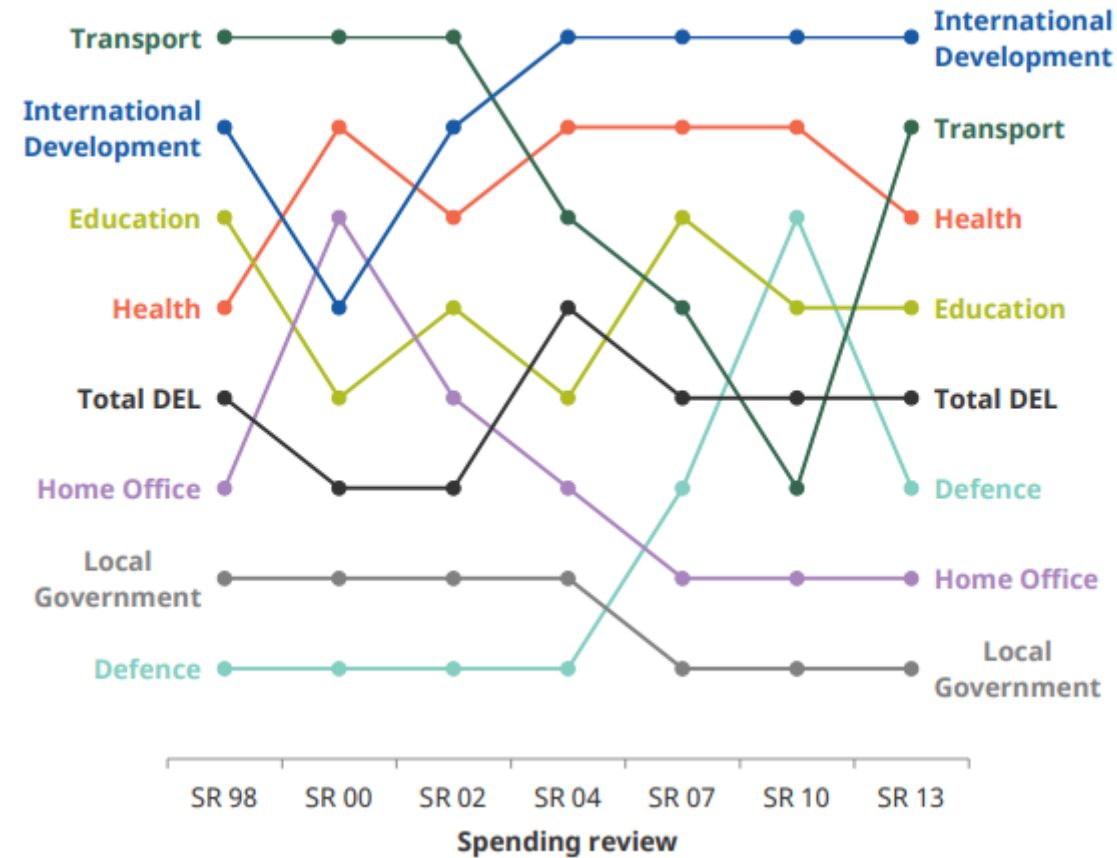
No public spending
for Defence, Police,
Fire, Home Office,
Justice, Transport,
Housing, Economy,
Agriculture
or Local Government
at this point

What might be done?

- A significant, longer-term, commitment to raise taxation
 - Including from average earners, not just 'the rich'; move towards more direct taxation
 - A reversal of the trend to remove more people and companies from direct taxation
 - Possible ring-fencing of particular taxes for, say, the NHS
 - Though this doesn't get round the 'Graph of Doom' problem if TME and deficit target remain the same
 - Also, in recessions, the hypothecated tax may shrink...
- An acceptance the State should do less/change priorities
 - Reduce the services provided by government, and not just the small ones such as libraries and refuse collections
 - End of triple-lock on pensions? 'core' NHS only?
- Co-payments for services (as for universities, railways and social housing)
 - Means testing?
- Brexit won't help if it lowers the UK's 'trend' growth for a sustained period... and many new policies are required to respond to the vote

Local government as a priority within DEL

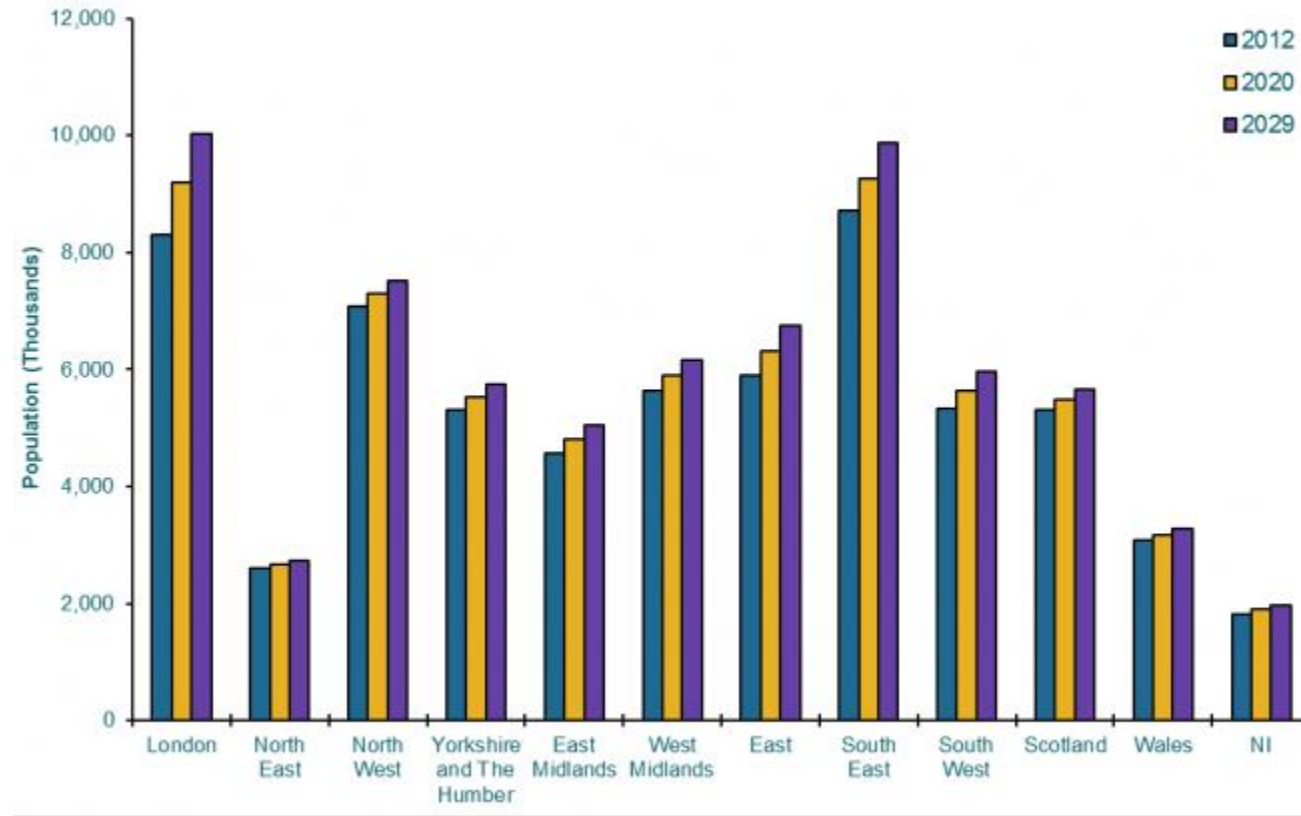
Figure 5.3. Ranking of planned growth in total DEL and selected departmental budgets



Source: IFS

Population projections, by region, to 2029

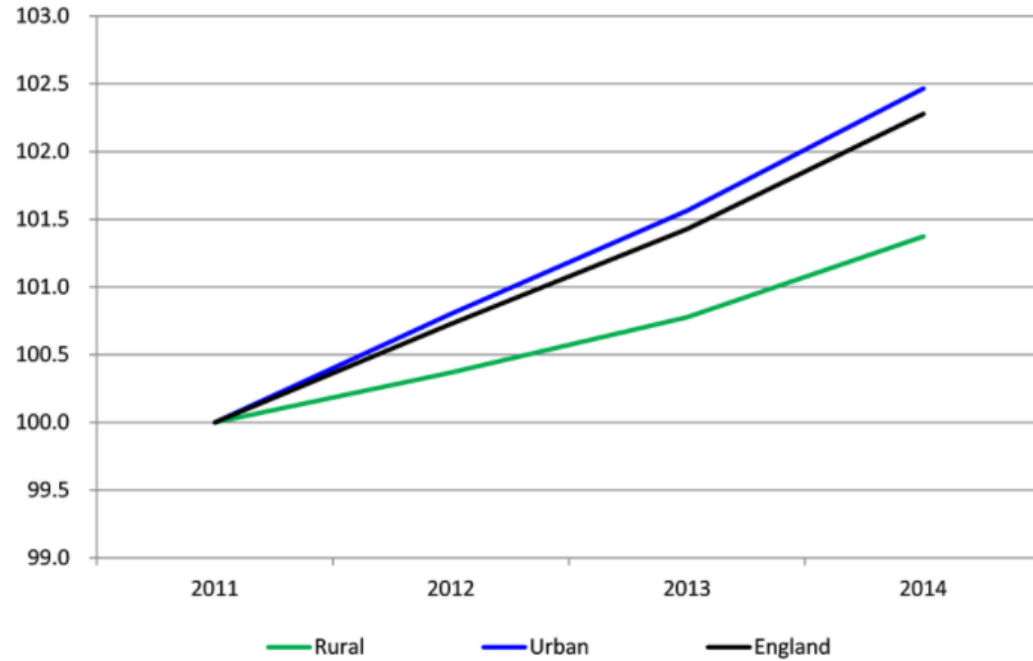
-further growth in all regions, though more in the South



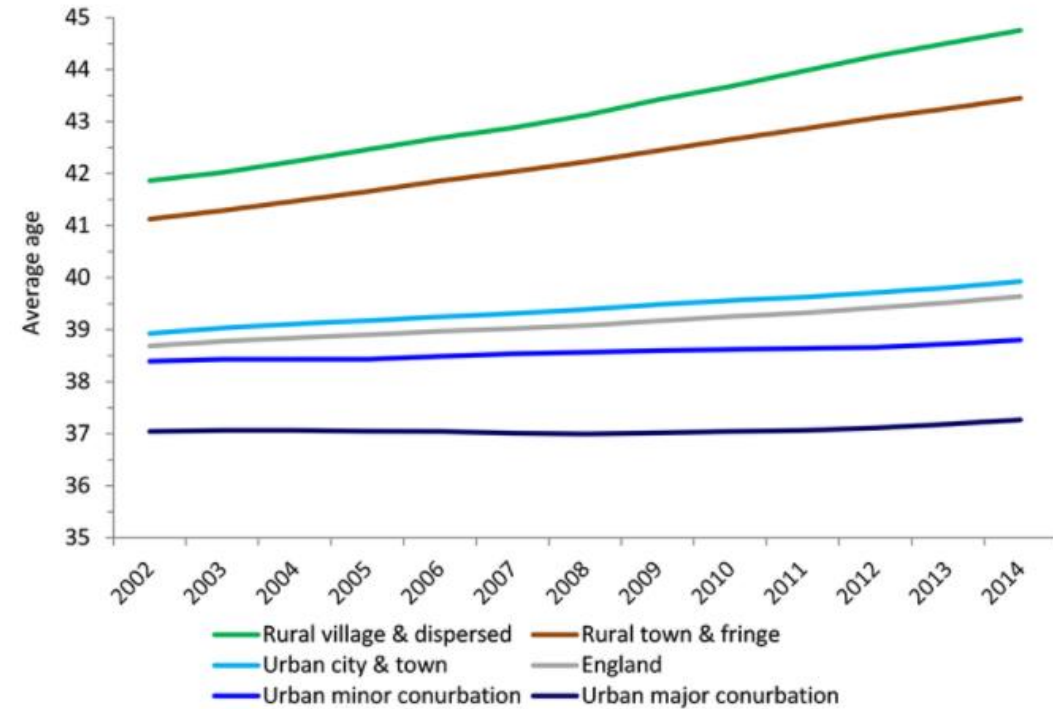
Source: ONS

Rural areas are growing more slowly and getting older...

Index of population change, 2011 to 2014 (2011 = 100)



Average age in rural & urban areas in England, 2002 to 2014



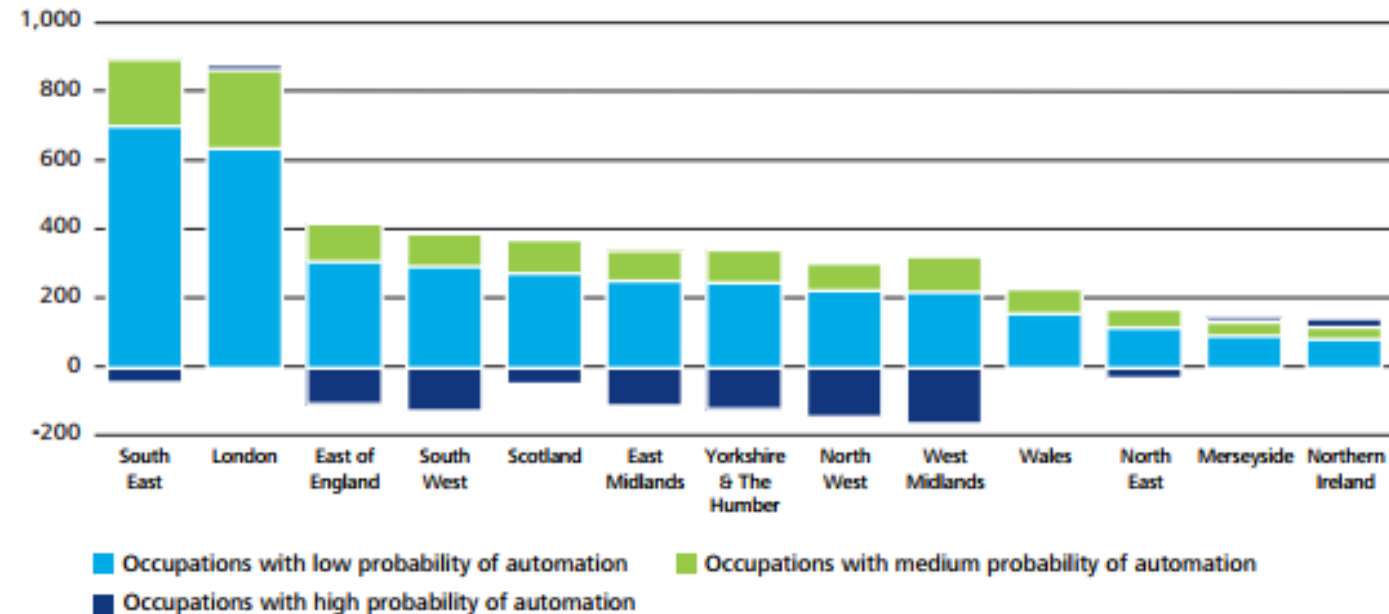
Lifestyle changes

- Changes to 'working life'
 - Length of formal education
 - Need for re-training; later-life education
 - Retirement age: extending due to State pension qualification date changes
- Expectations of different generations
 - 'left-right'; 'conservative-progressive'; 'Leave-Remain' etc
 - Do these attitudes change as people get older?
- Changes to consumerism
 - On-line retail
 - Attitudes to different companies, goods and services
- Urban, suburban and rural choices
- Trends, fashion, public mood etc etc

Changing economy: recent employment change, by skills category, by region/nation – impact of automation

Figure 3. Change in total employment (2001-2015) by skills category

Change in total employment (2001-2015) (thousands)



Source: Frey and Osborne, ONS, Deloitte analysis 2015

Up-coming local government policy challenges

- Spending Review 2019
- Fair Funding Review
- Schools' funding formula
- Housing targets
- Brexit
 - Shape of UK's future relations with the EU27 to be sorted out this autumn [?]
 - UK to leave the EU in March 2019
 - Impacts range from virtually none to radical changes affecting all aspects of trade, exports, imports and travel
 - Rural economy exposed to possible new higher tariffs, zero tariffs, changes to CAP subsidy regime, regulatory change, trade deals with EU, US and other countries

Spending Review and Fair Funding Review

- An extra £20bn for NHS (in real terms) agreed by 2023-24
 - But no announcement about which taxes (or higher deficit) will fund this
- Defence are pushing for additional resources and will almost certainly get them
- Adult social care awaits the government's proposals
 - Unlike the NHS, no commitment to form or scale of funding
- Unless the government decides to push up taxation and/or the deficit, local government will, at best, be left with something close to 'flat cash' for the next spending review period
- Fair Funding Review, if it led to any change, would mean moving spending from one council to another...
 - Will Northamptonshire have convinced ministers that rural areas need more resources?

Rural authorities' future

- Local government has proved amazingly resilient and inventive
- But, need to keep on changing service offer and delivery
- Councils can benefit from development-generated resources
 - New Homes Bonus, Section 106, Community Infrastructure Levy
 - Potential NDR growth?
 - Brexit impacts important
- Further innovation to deliver smarter services
 - Data-based analysis of service cost- generators?
 - More public health-type interventions
 - Greater use of regulatory powers to drive down costs
 - Extension of 'nudge'-style behavioural interventions
 - Use of public to monitor neighbourhood needs via apps etc

Conclusions

- The UK is entering a period of immense political instability
 - Brexit negotiations
 - Parliamentary support (or lack of it) for any deal
 - UK's major political parties are riven with dissent and 'civil war'
 - Local and regional government has to 'keep calm and carry on'
- While the most likely outcome in the medium-term is a relatively smooth transition to the UK's new trading, customs and diplomatic position, all organisations need to prepare for a possible disruption to normal conditions
- Local government can provide the capacity to think and plan

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