



12 January 2021

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Spending Review 2020 and council funding: COVID and (kicked) cans

Kate Ogden and David Phillips

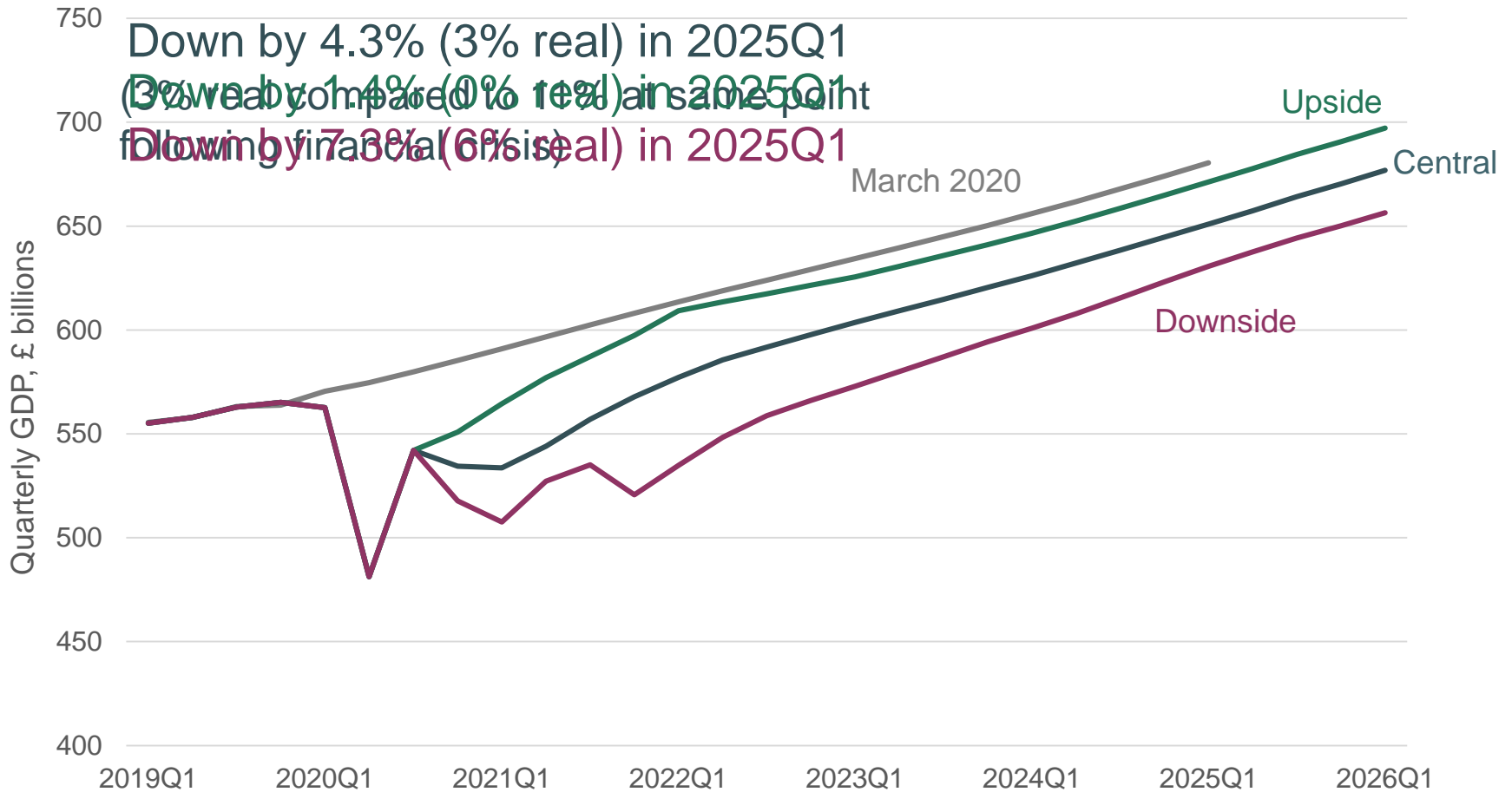


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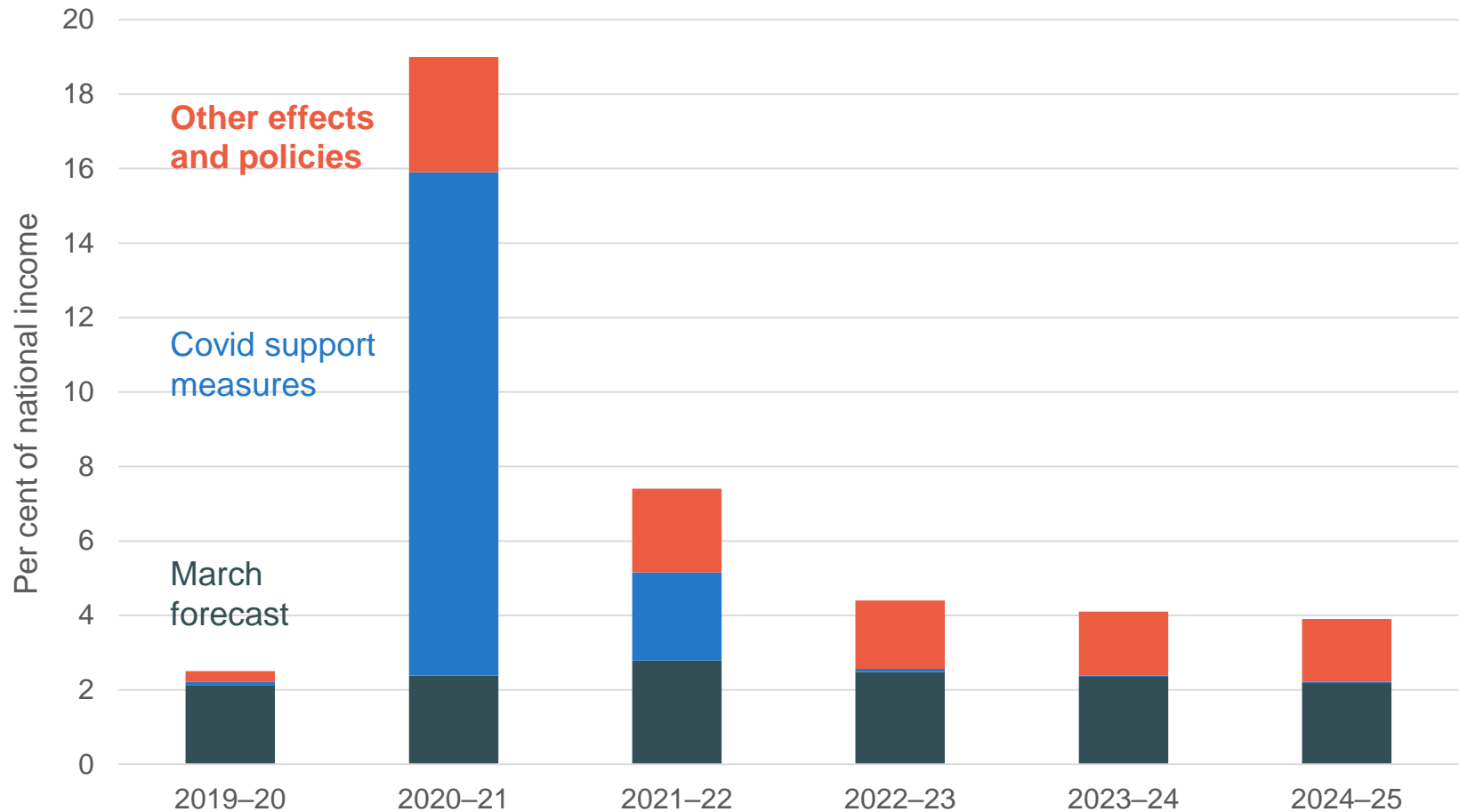


The Spending Review

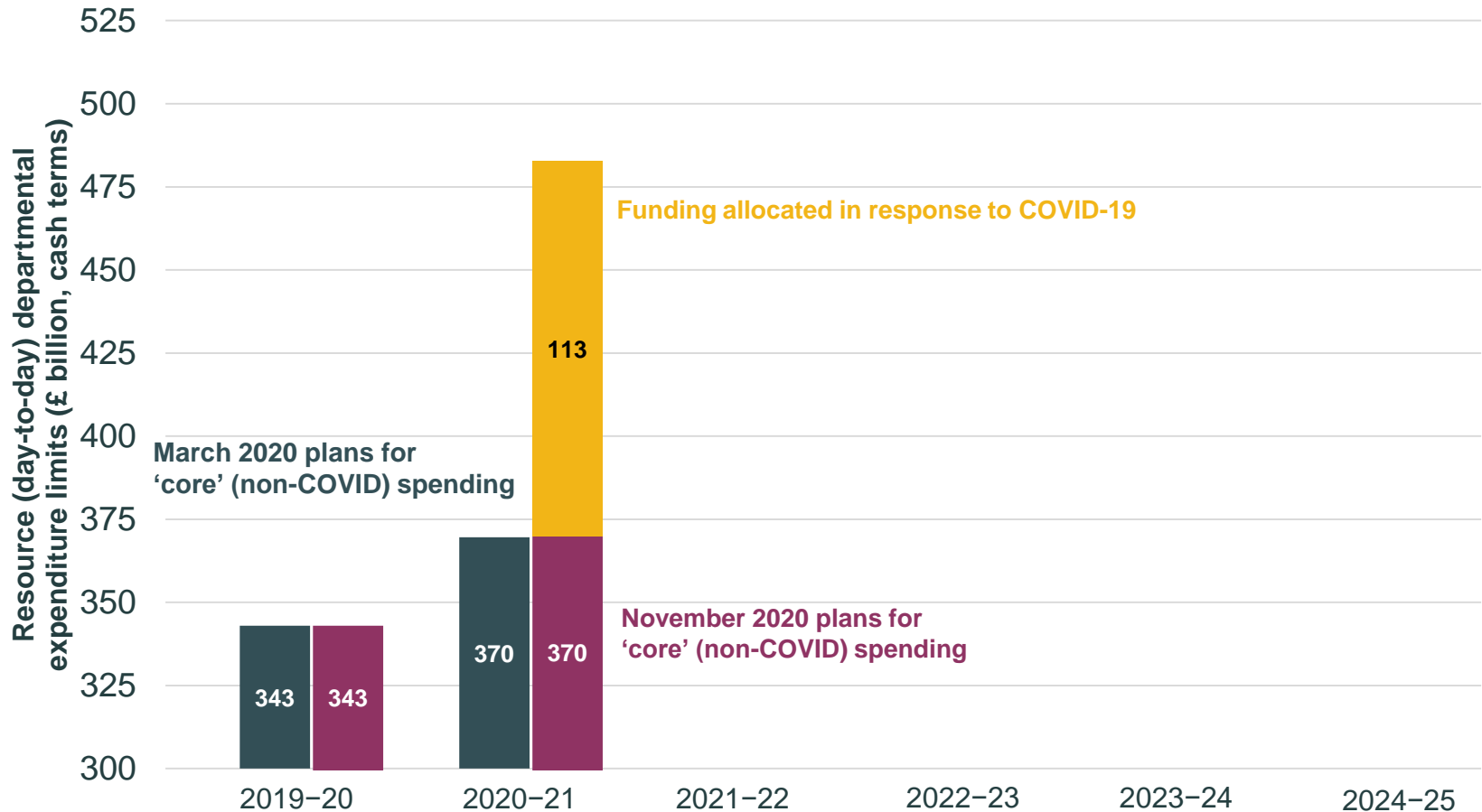
Permanent hit to national income



Borrowing forecast to spike and remain elevated

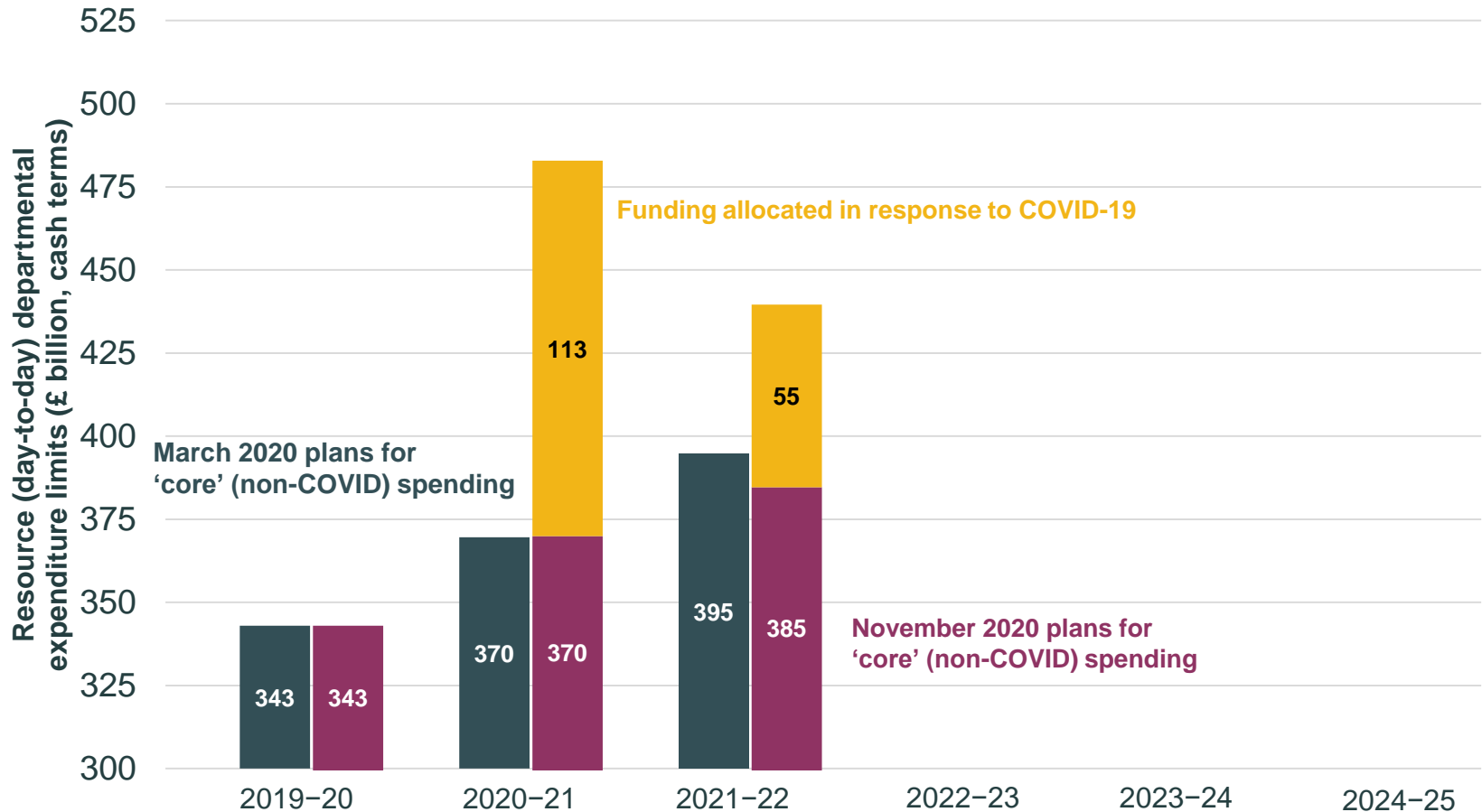


Boost to spending to tackle COVID but core budgets paired back



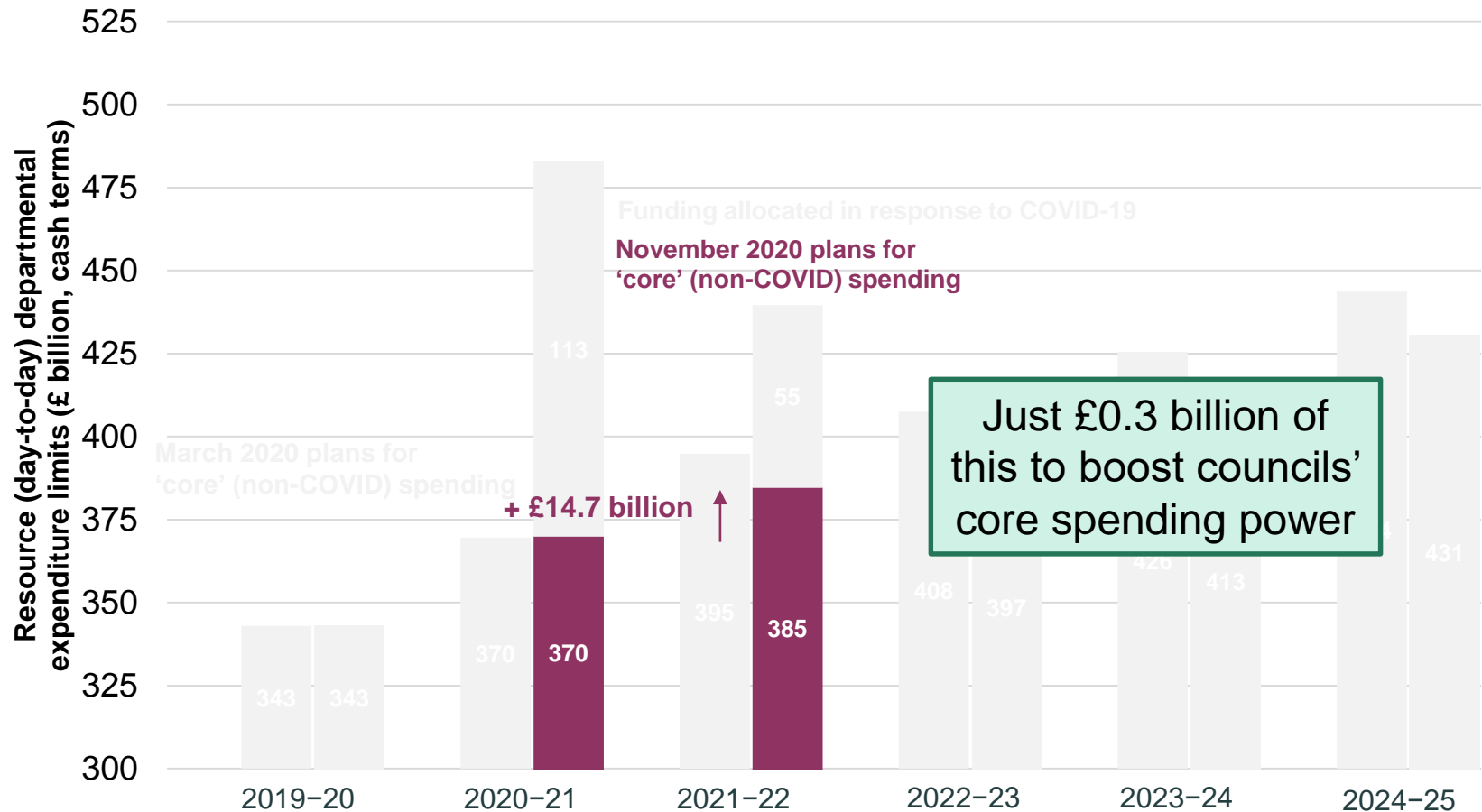
Source: Author's calculations using HM Treasury Budget 2020, HM Treasury Spending Review 2020, and OBR Economic and Fiscal Outlook November 2020. Adjusted for the reclassification of the Scottish Block Grant Adjustment.

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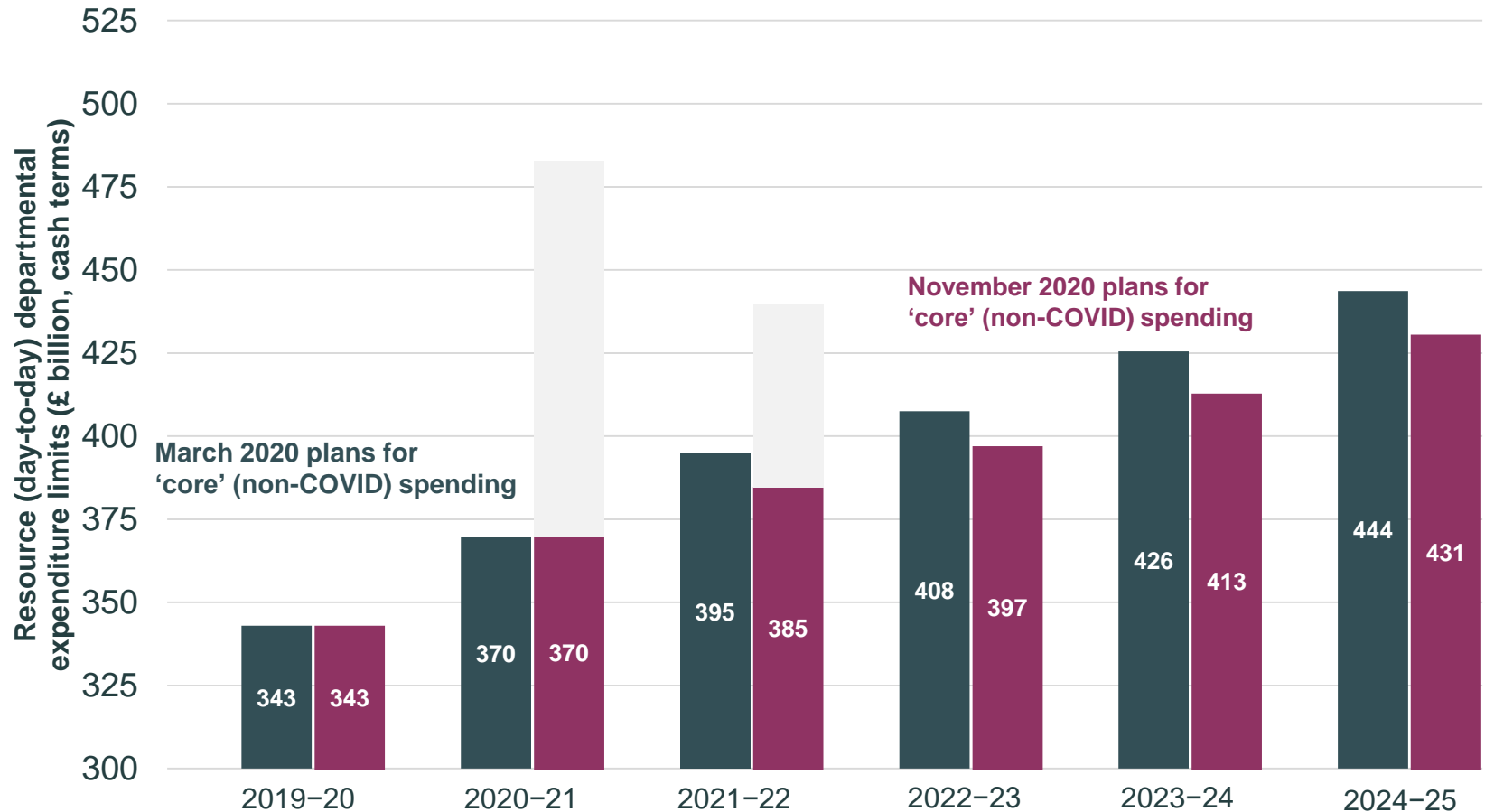
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Boost to core budget next year provides little for councils



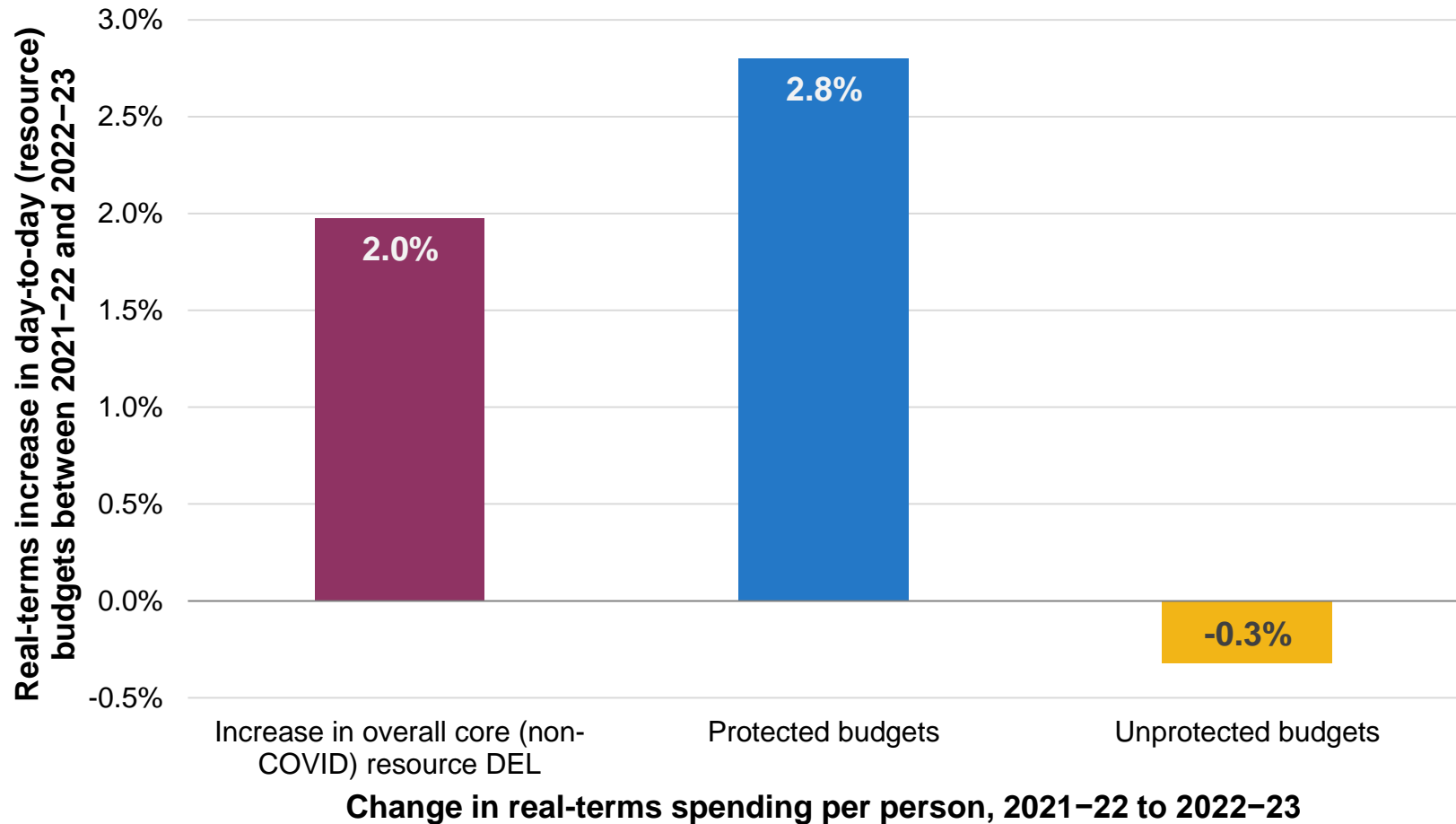
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Boost to spending to tackle COVID but core budgets paired back



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Many public services are facing a squeeze in 2022-23



Note: Figures are for HM Treasury definition of core resource DEL (excluding depreciation) per capita. Protected budgets include: NHS England; schools in England; the Barnett consequential of increases in NHS and schools spending for Scotland, Wales and Northern Ireland; Ministry of Defence; and estimated ODA RDEL.
Source: Author's calculations using HM Treasury Spending Review 2020 and OBR Economic and Fiscal Outlook, November 2020.

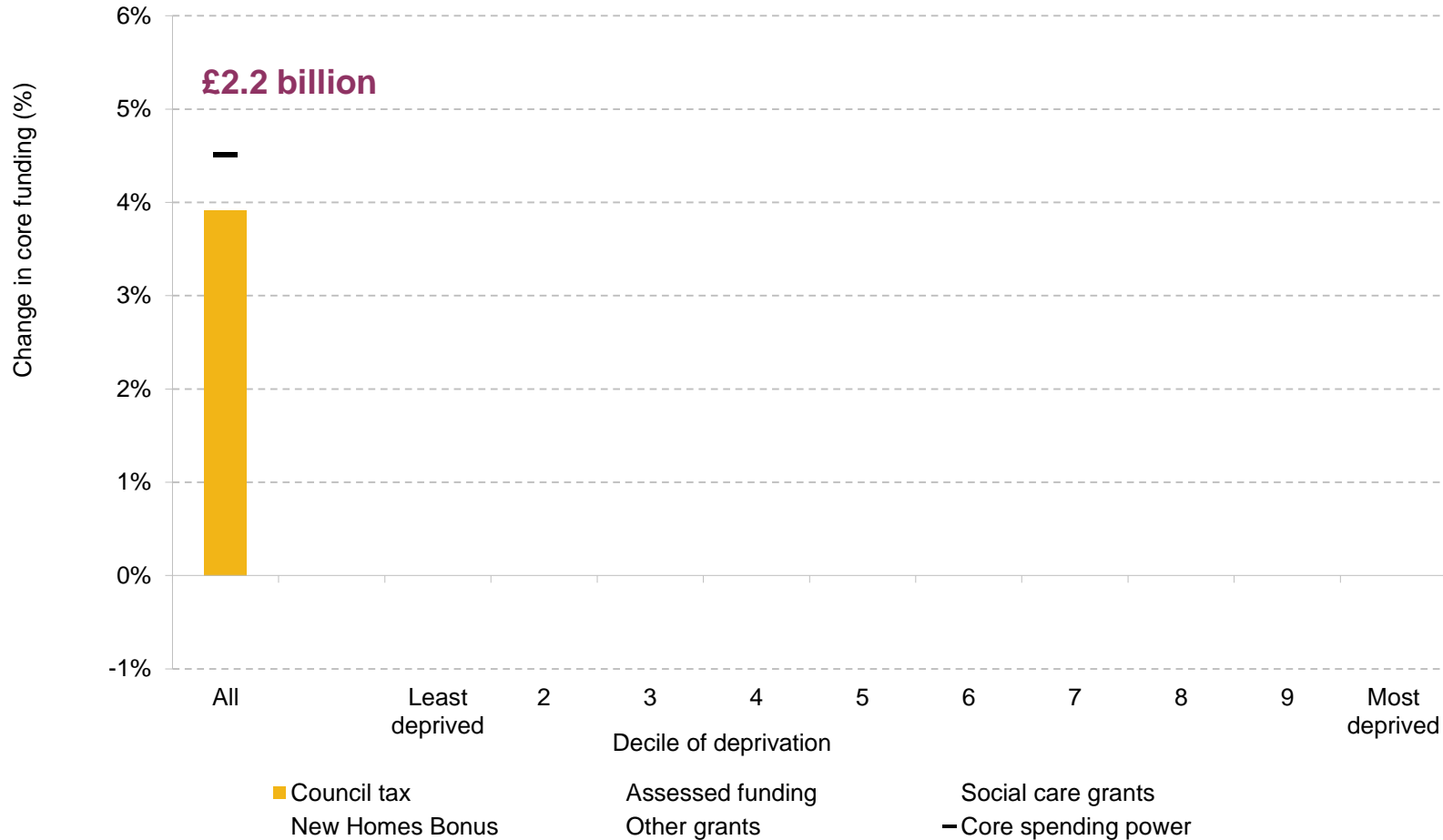
What are the options?

- Cuts to a range of spending areas – on top of those made in the 2010s
 - Non-health spending reduced by 20% between 2010 and 2019
- Further increase in borrowing: cheap but far from risk-free
 - Interest rates for new borrowing just 0.3% (1.9% 5 years ago)
 - Each 1% increase in short-term interest rates now costs over 0.4% of national income in extra debt interest payments
- Increase taxes to fund higher spending and bring borrowing down
 - National taxes – raising rates, broadening bases
 - Local taxes – council tax rates, but case for wider reform

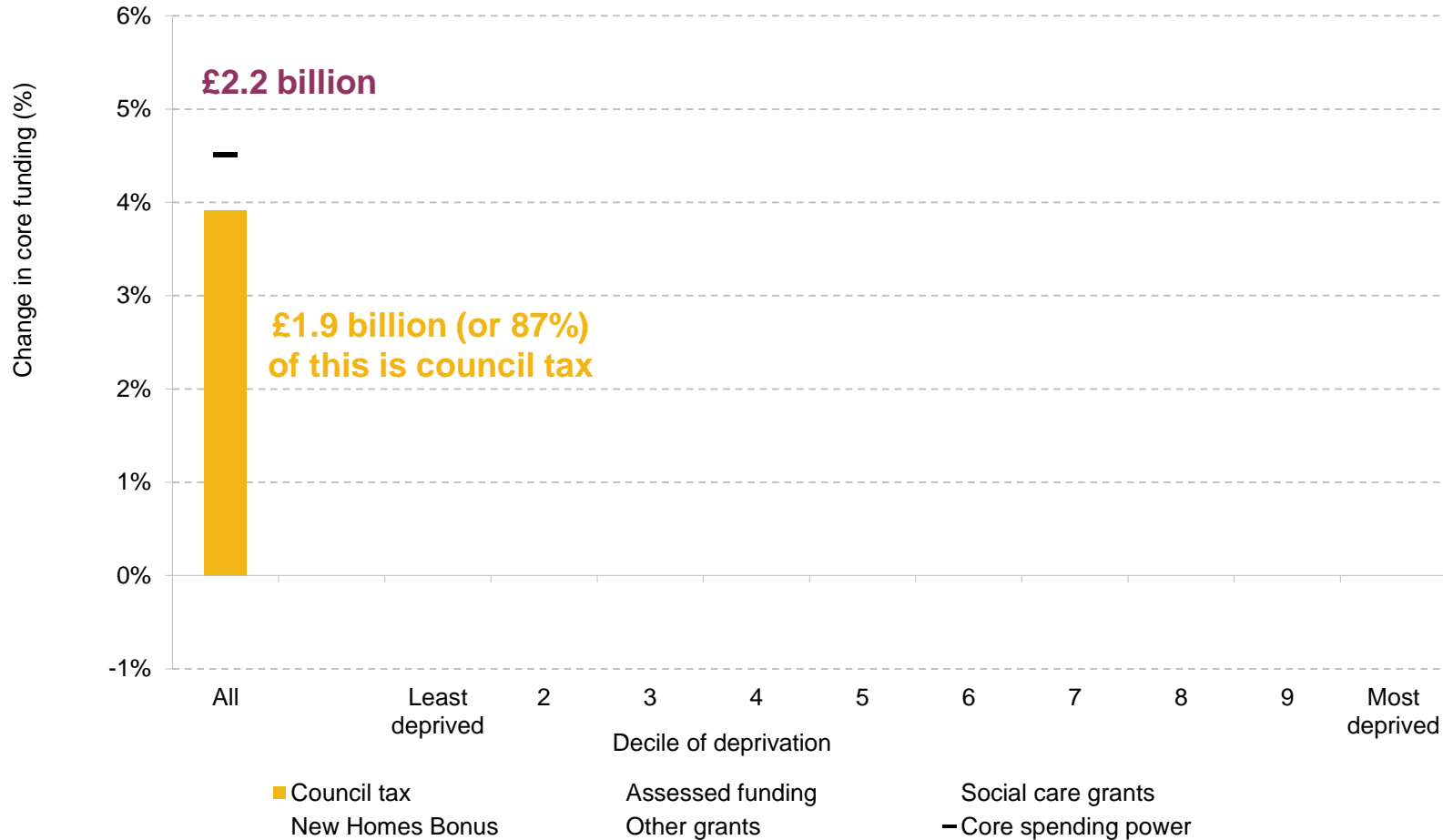


The local government finance settlement

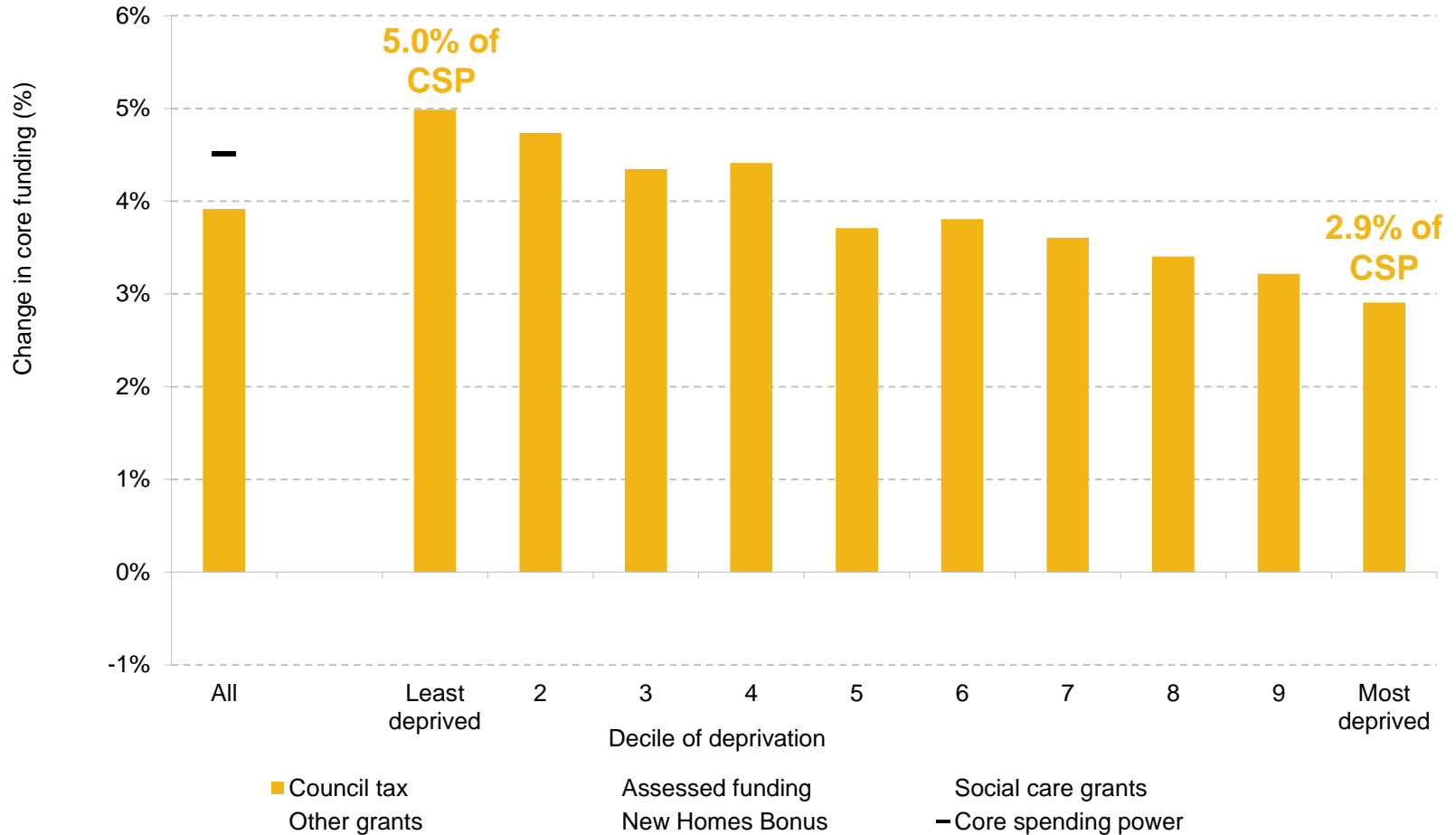
87% of the increase in core spending power from council tax



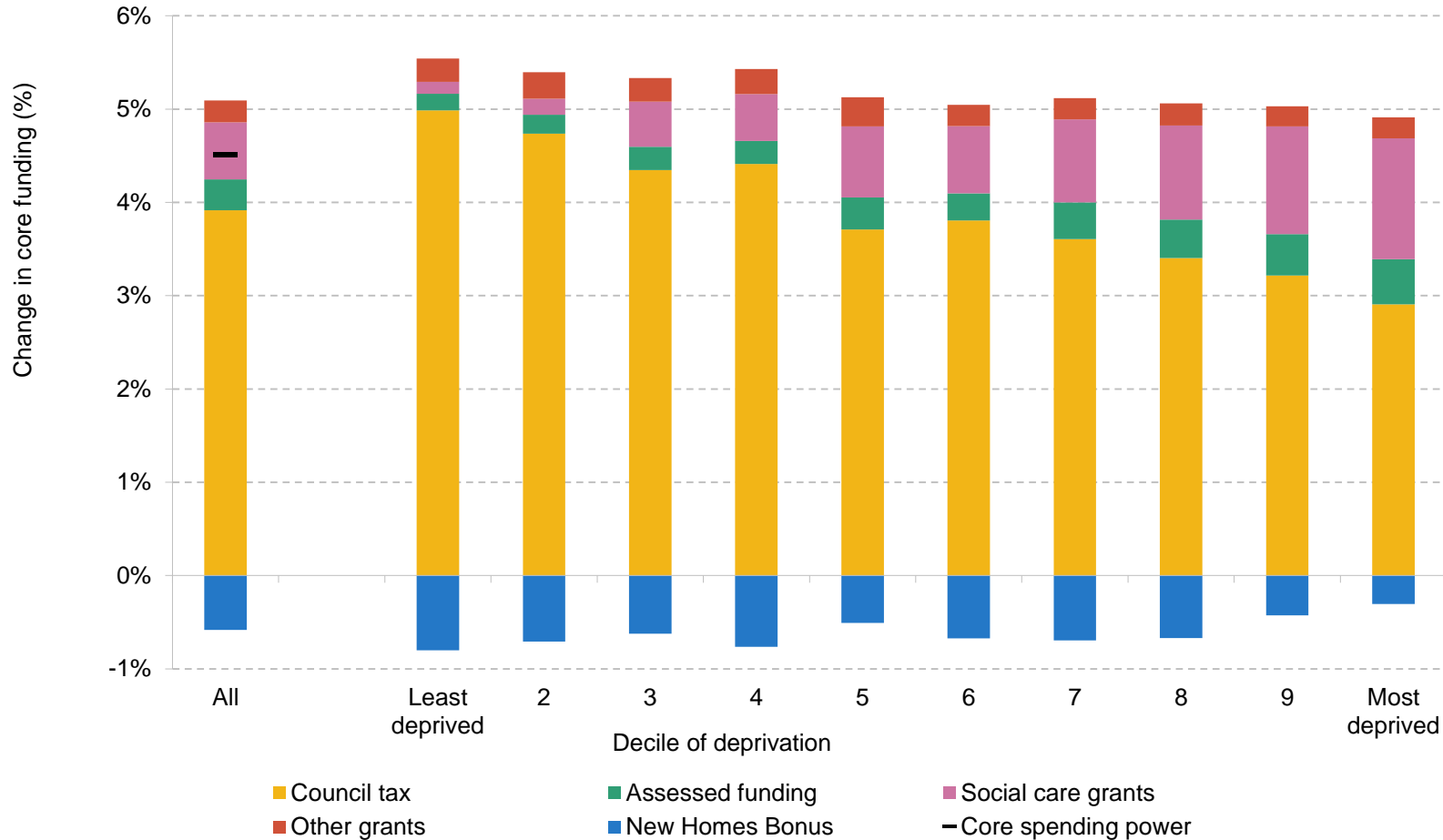
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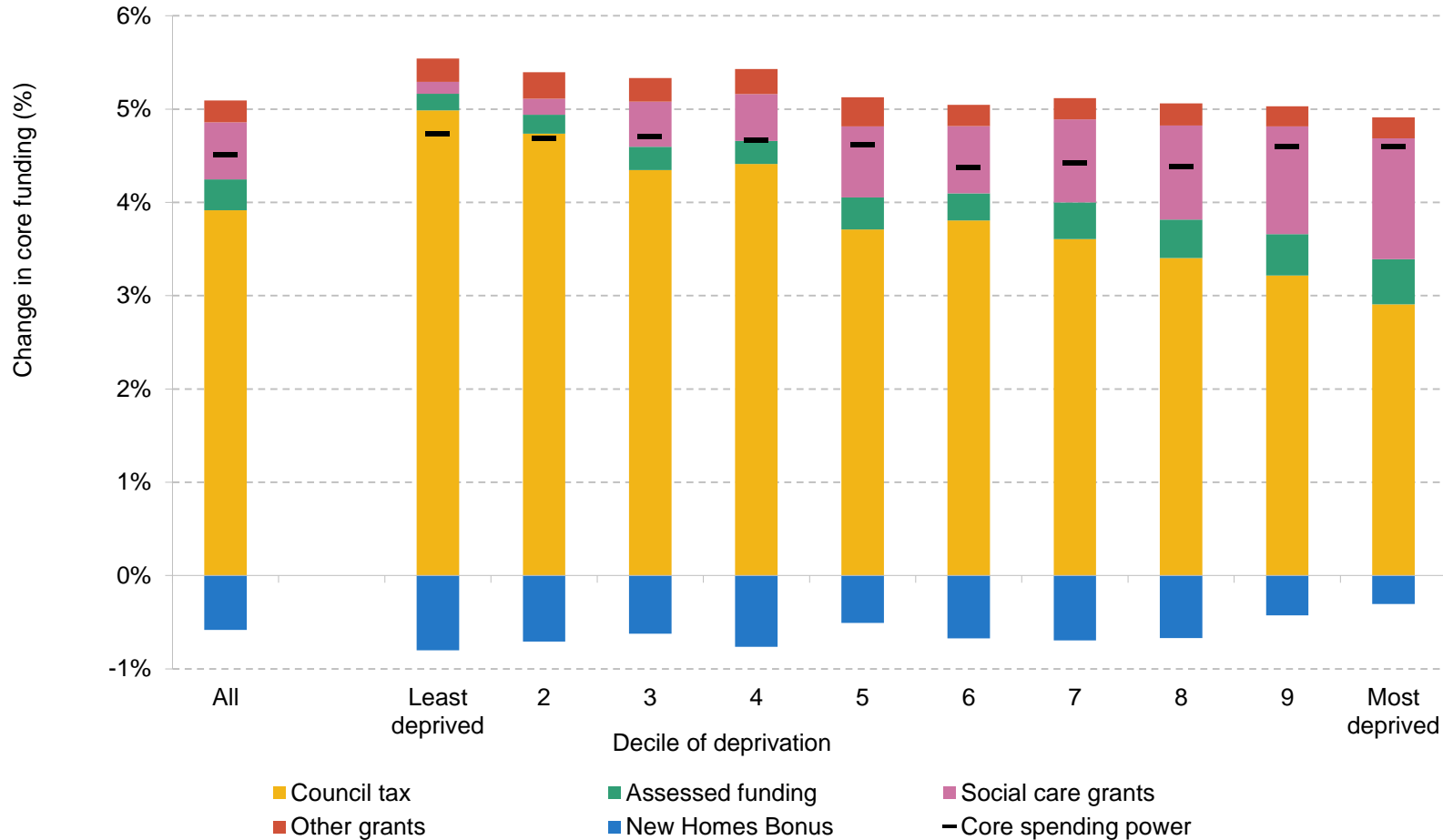
Council tax raises less in more deprived areas...



... but grant allocations offset this 'regressive' pattern



4.4% to 4.7% increase in CSP across deprivation levels



Council tax likely to raise less than assumed in settlement...

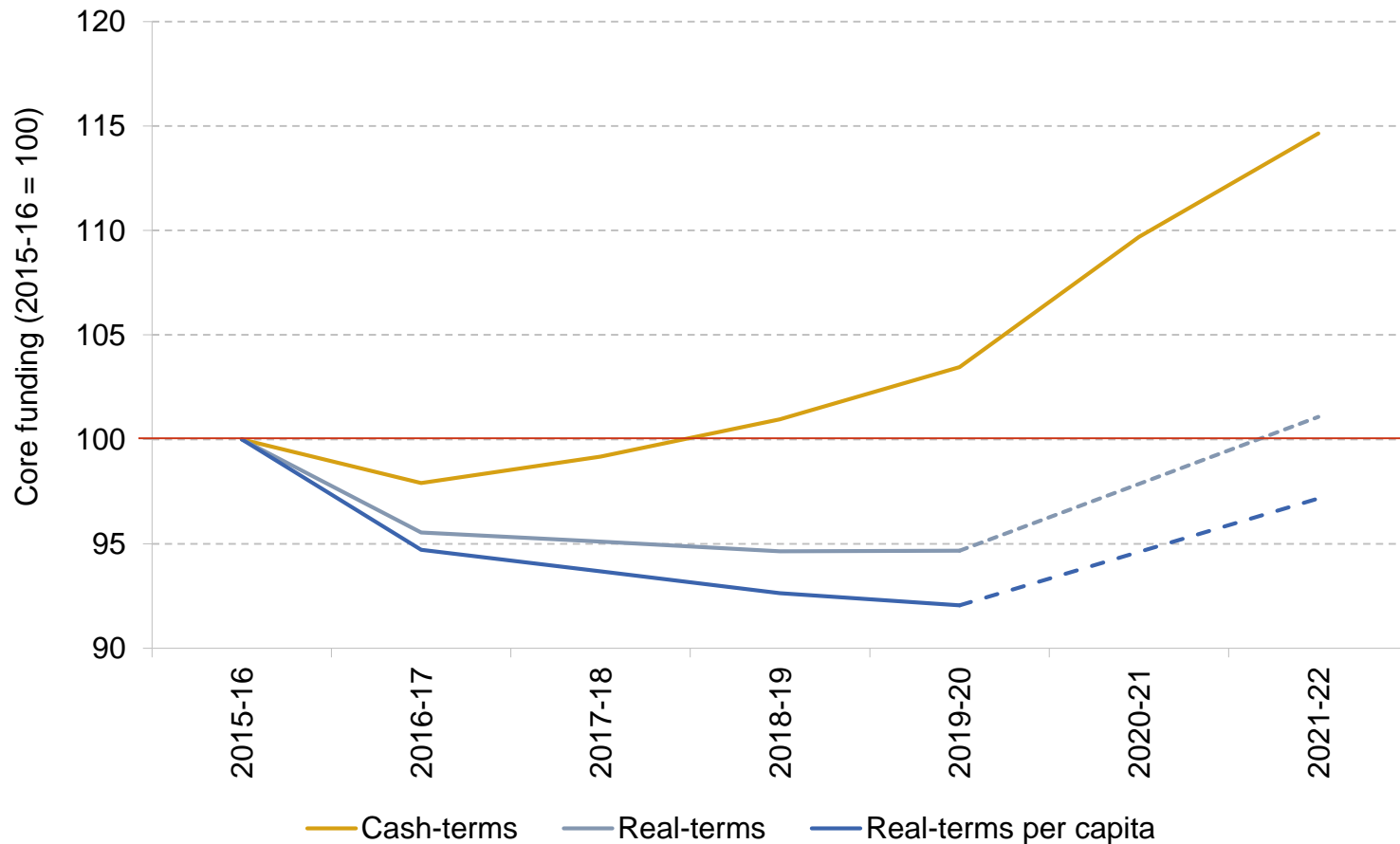
- Increase in assumed council tax revenues consists of two components
 - Increase in tax rates (5%, 2% and £5 referendum limits)
 - Increase in tax base
- Increase in tax base based on average between 2016-17 and (pre-crisis forecasts) for 2020-21: 1.7% a year, on average
 - But a large part of this was due to falls in CTS claimants & spend
 - And claimants now up, and likely to continue rising
 - Council tax likely to raise hundreds of millions less than assumed
- Govt is providing funding for CTS as part of its COVID package – but mustn't double count this funding by adding it to CSP

... but funding looks reasonable if COVID abates by Summer



- Projected funding gap next year potentially more than filled by extra council tax and Covid support package
 - May vary between councils
 - Depends on when Covid pressures abate
- Additional pressures could be funded from £21 billion 'reserve'

Real-terms will still be 3% lower per capita than in 2015-16



Medium and longer-term pressures likely exacerbated by COVID



- Existing pressures on major service areas
- Covid likely to exacerbate pressures
 - Economic shock will have consequences for health and well-being
 - Changing behaviour may increase demands on services and hit some revenue streams permanently
- Need to decide how much and in what form additional funding for 2022-23 will take
 - Benefits from a long-term term strategic plan

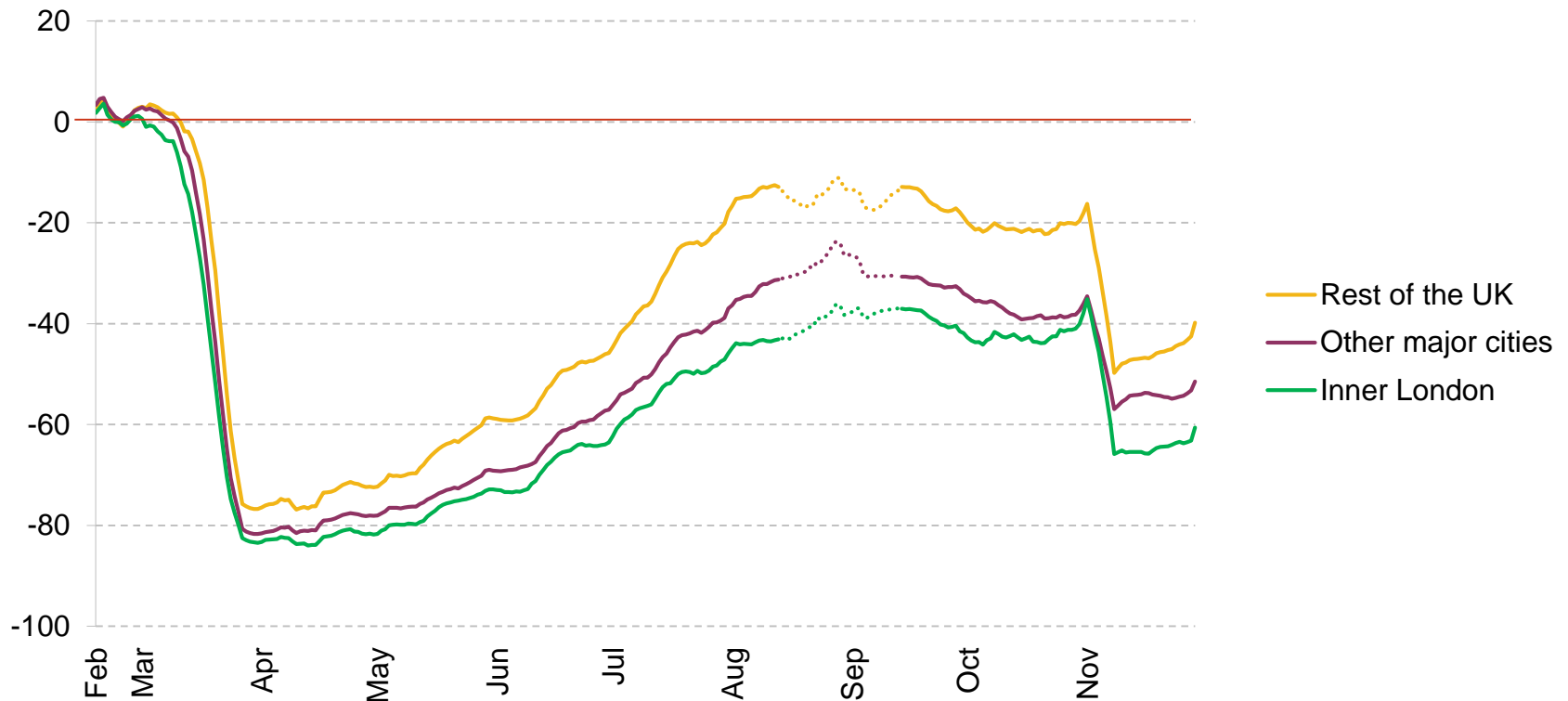


Kicked cans

Looming decisions need to be taken

- Reform of adult social care system
 - Need to consider funding in context of impact of COVID-19 crisis on public finances and inequalities between population groups
- The UK shared prosperity fund, levelling up and devolution
- The design of business rates and rates retention
- The Fair Funding Review and assessing funding needs
 - The COVID-19 crisis *may* have significant impacts on type and location of economic activity

Centres of major cities have been hard hit – changing patterns of need?



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 - Need to consider funding in context of impact of COVID-19 crisis on public finances and inequalities between population groups
- The UK shared prosperity fund, levelling up and devolution
- The design of business rates and rates retention
- The Fair Funding Review and assessing funding needs
 - The COVID-19 crisis *may* have significant impacts on type and location of economic activity - and hence policy and funding
- Understandable to ‘kick these cans down the road’ in crisis, but possible to build flexibility into plans as waiting for uncertainty to dissipate will make councils’ planning difficult



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