National Audit Office

Local government: where are we?

An NAO perspective

APSE annual seminar

September 2017

Overview | Where are we now post GE?

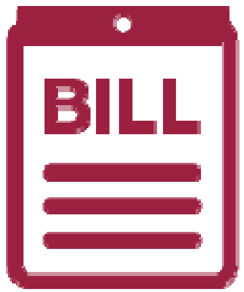
- The Local Government Finance Bill not in the Queen's speech: an effective halt?

- No public statement yet on the future of reforms: much may be possible through secondary & existing legislation

- Fair Funding Review set to continue

- The future for local government finance remains uncertain

- And where next for devolution?



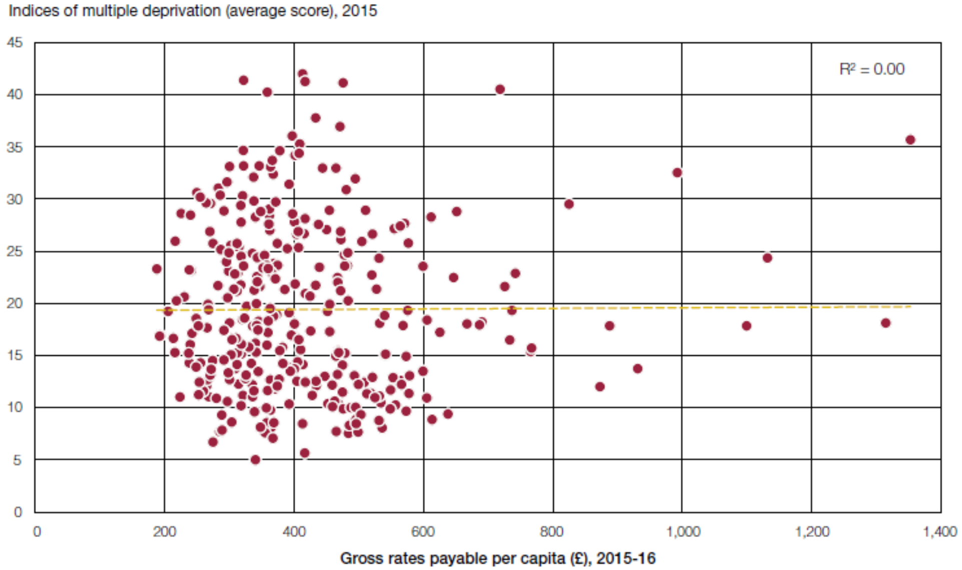
National Audit Office

Business rate retention

LG finance reform | Business rates tax base vs need

Figure 2
Level of deprivation and gross rates payable per capita by billing authority

The scale of an area's business rates tax base (per capita) does not necessarily match its level of need for local services



Notes
1 See separate *Methodology* document for details of data sources and methodological approach.
2 The dotted line is a regression line which shows no correlation between the two variables.

Source: National Audit Office analysis of Department for Communities and Local Government and Office for National Statistics data

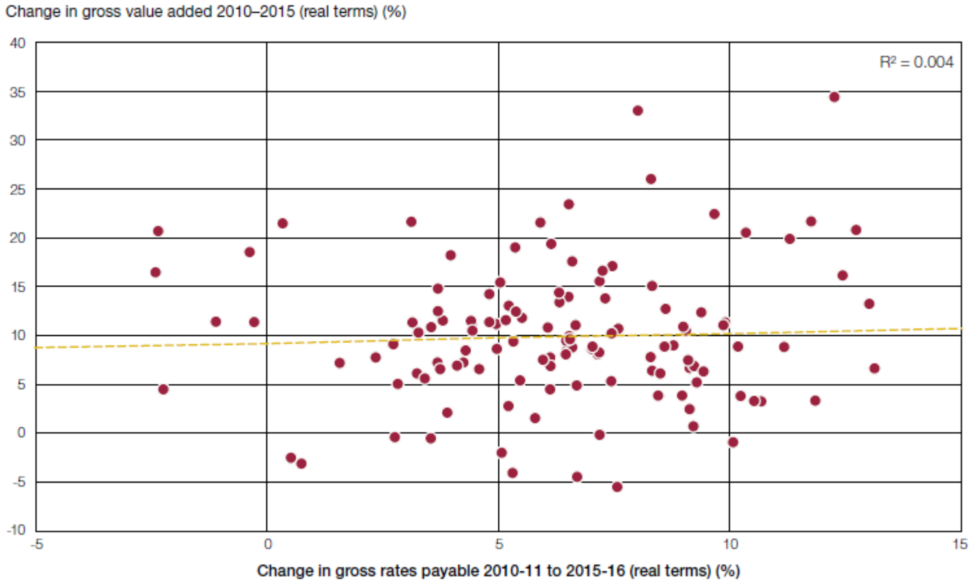
- **No correlation** between an authority's **business rates tax base** (gross rates payable per capita) and its need for **local services** (indices of multiple deprivation).
- So, government **redistributes** locally collected income to ensure that that all local authorities are sufficiently funded.
- But **need and ability** to generate business rates locally can **diverge** over time. The 50% scheme sought to correct for these through a system of periodic resets.
- A **majority of authorities have experienced growth** in their tax bases since 2010-11. Those that have lost out tend to be authorities that have had to make large provisions for appeals.

LG finance reform | Business rates & economic growth

Figure 7

Growth in the business rates tax base against growth in economic output by local area

High levels of business rates growth do not necessarily reflect economic growth



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- One objective of the business rates retention scheme is to promote **economic growth**.
- However, business rates growth is driven by **growth in business floorspace**
- The link between growth in floorspace and economic growth is **not direct**.
- The link between business rates growth and local economic growth has **not been well thought through** by the Department.
- **Our report recommended that the Department strengthens its understanding of the link between business rates and economic growth** to ensure economic growth can be maximised.

Combined authorities : findings

Overview | Where we are now…

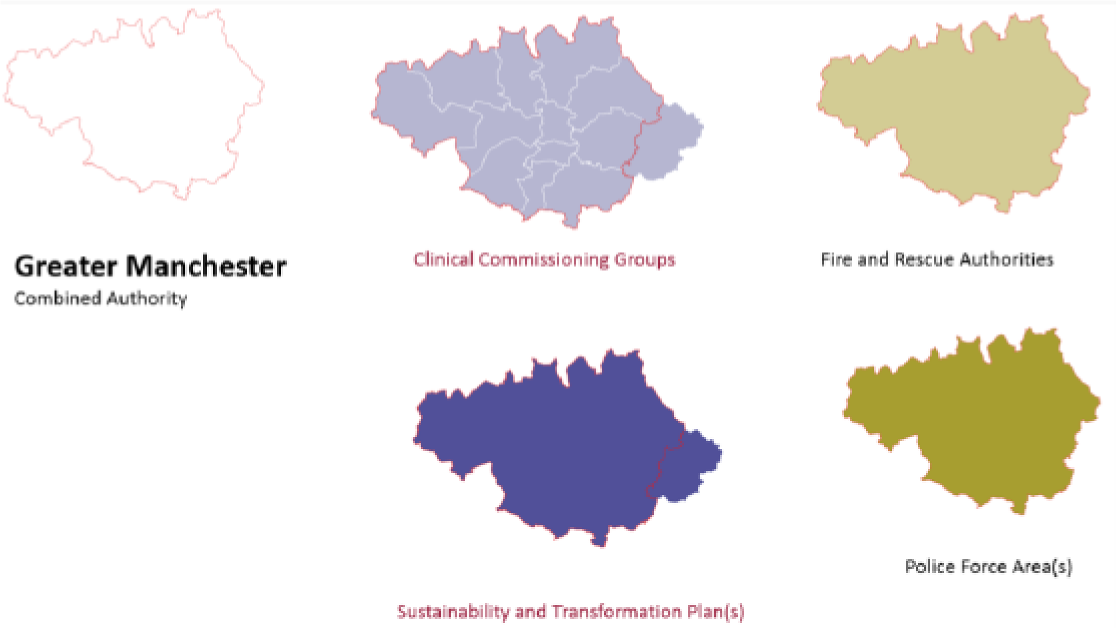
- **9 combined authorities**
- **6 mayoral elections** to combined authorities
- **54 (17%) local authorities** in England with full membership of a combined authority
- **34% of the population** living in combined authority areas
- **22% of the population** living in combined authority areas with an elected mayor
- **£1.3bn** combined revenue and capital budget for the six mayoral combined authorities, 2017-18
- **£818 million** spent by the six CAs on transport in 2015-16
- **£16** average annual devolution deal investment fund per head person in mayoral combined authorities
- **21% to 34%: turnout rates** in mayoral elections

Challenges | Coherence & complexity: geography

Figure 10

Greater Manchester Combined Authority's geographical boundaries, with Clinical Commissioning groups, Fire and Rescue Authorities, Sustainability and Transformation Plan and Police Force boundaries

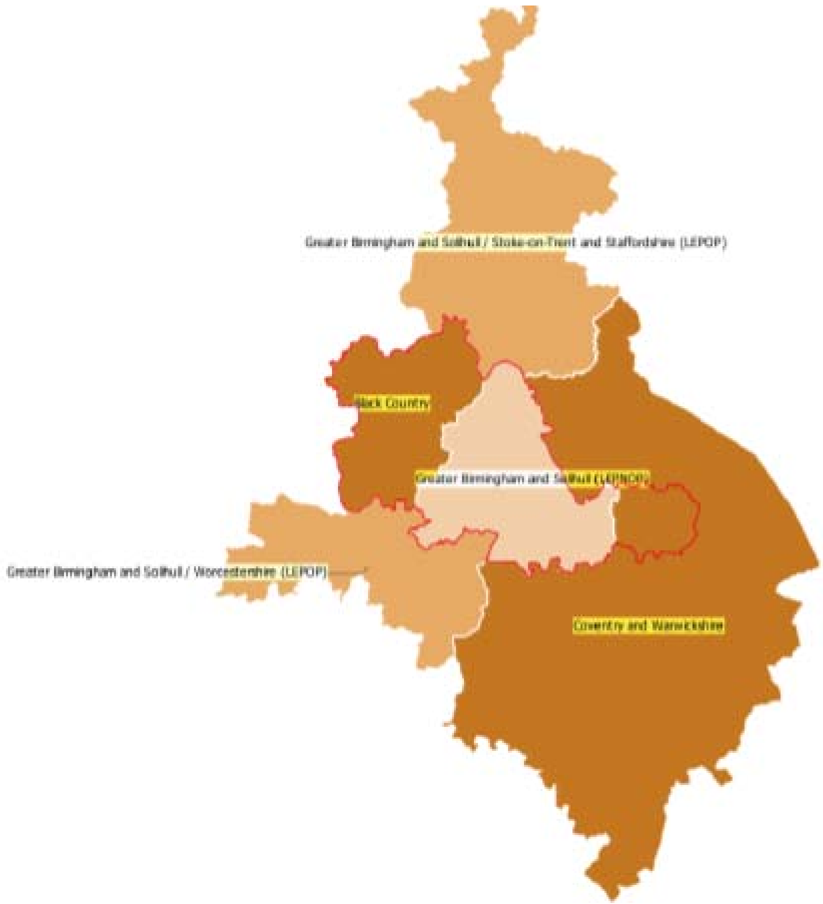
Greater Manchester Combined Authority's boundaries are princiaplly coterminous with other public administration' boundaries



- **Complex geographies have created challenges and tensions for local areas**
- **Rural and two tier areas** in particular have found the adoption of the mayoral model challenging.
- **Inconsistent approaches** to devolution across central government departments.

Challenges | Coherence & complexity: function

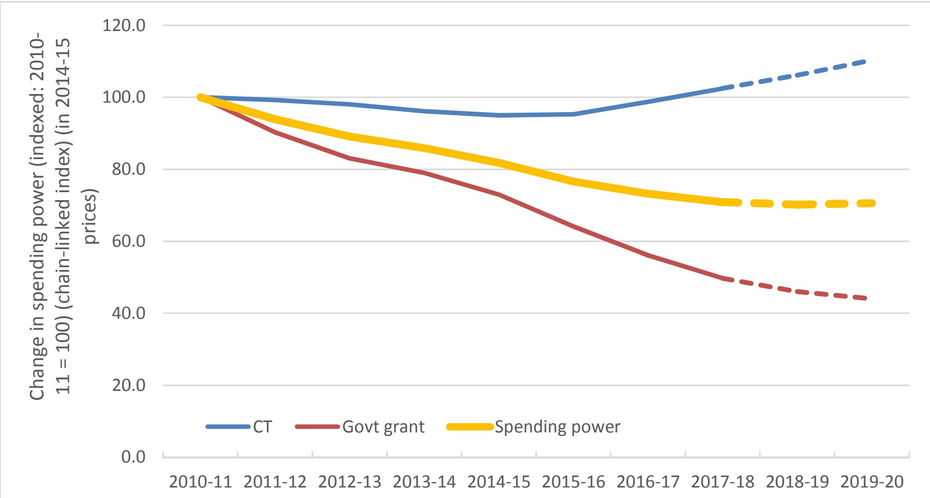
Greater Birmingham & Solihull CA & LEP boundaries

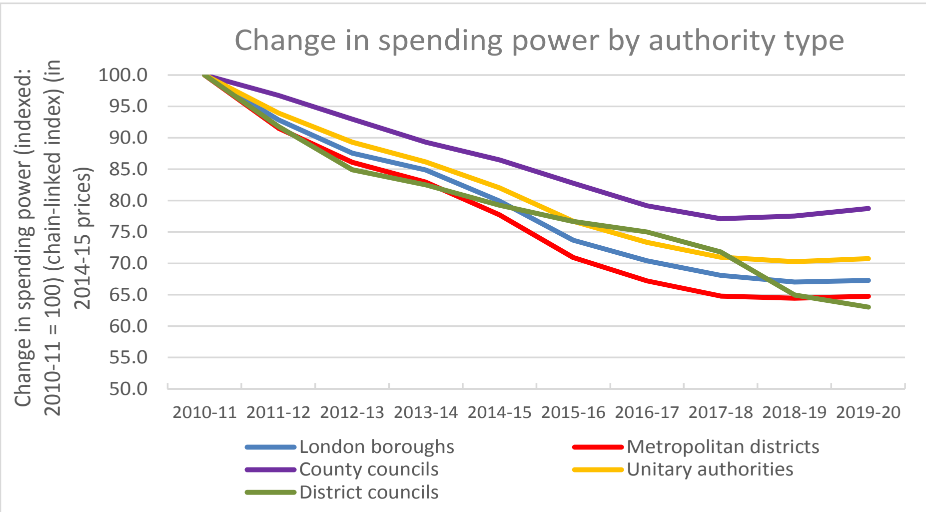


- **Complex geographies have created challenges and tensions for local areas** which have to be managed.
- **Multiple LEPs within a CA area** make collaborative working more challenging

Financial sustainability : forward look

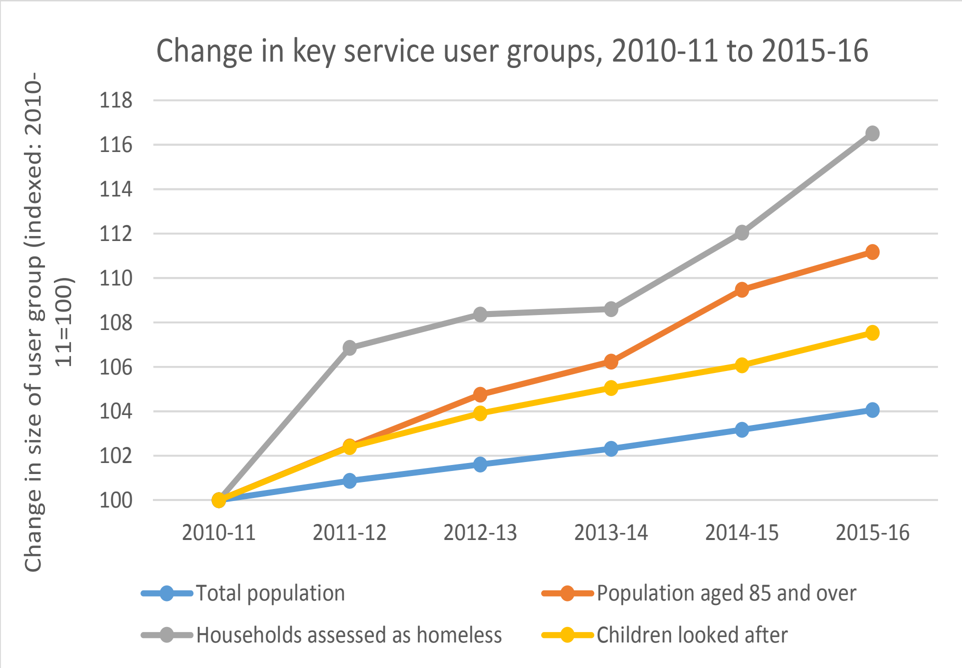
Overview | Reductions in funding

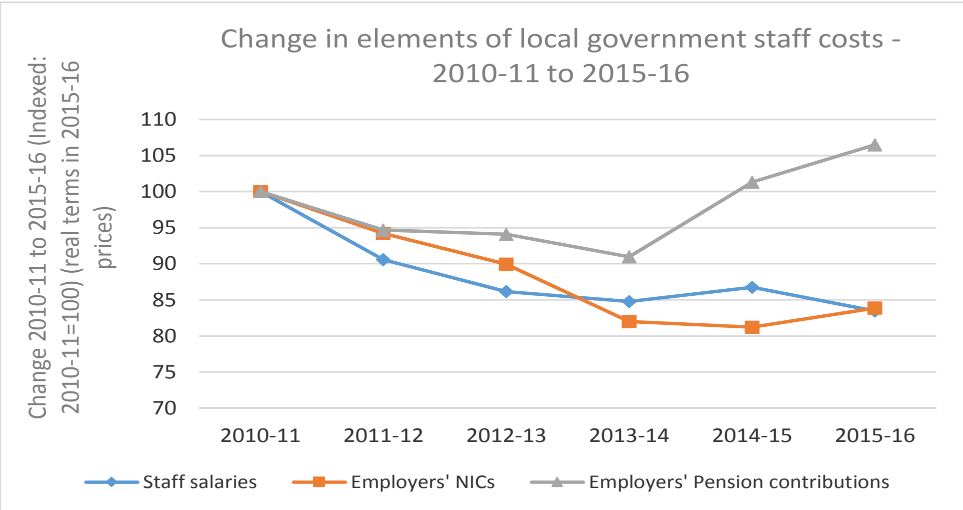




- From 2010-11 to 2017-18 government funding fell by 50.3% in real terms, and revenue spending power fell by 29.1%.
- There have been several phases of austerity:
  - 2010-11 to 2015-16 –full blown austerity.
  - 2015-16 to 2017-18 – marked softening following the 2015 Spending Review.
  - 2017-18 to 2019-20 – ‘the end to austerity?’
  - There was significant variation in reductions between local authorities.
- Our 2014 work identified that areas with the highest levels of deprivation had experienced the greatest reductions.

Overview | Demand pressures





Demand pressures

- At the same time that spending power has fallen by 29% in real terms, England's population grew by 4%.
- However, there has been even more rapid growth in key service user groups including:
  - 8% increase in children looked after
  - 11% growth in those aged 85 and above
  - 16% growth in homeless households.

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Other cost pressures

- £391m increase in employee pension costs following the pension revaluation in 2013-14
- £230m in 2016-17 due to the national minimum living wage.
- additional costs due to changes to employers' NIC in 2016-17
- £207 million per year from 2017-18 due to the Apprenticeship Levy.

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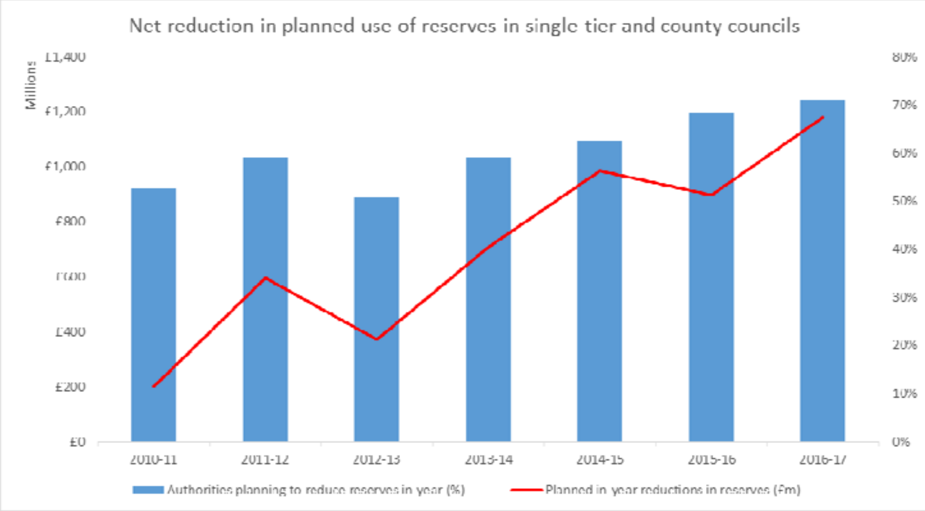
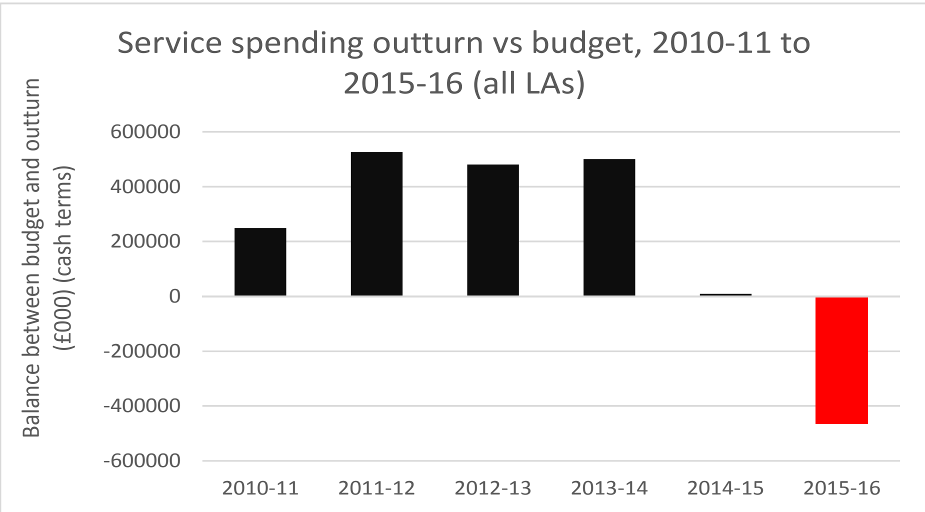
Overview | Risk to financial sustainability





Pressure in budget setting

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- Single-tier and county councils are increasingly having to plan to use reserves in order to set a balanced budget.
  - In 2015-16 70% included use of reserves in their budget, up from 50% in 2012-13.
  - These LAs planned to use £1.2bn of reserves in 2015-16, up from £200m in 2010-11.

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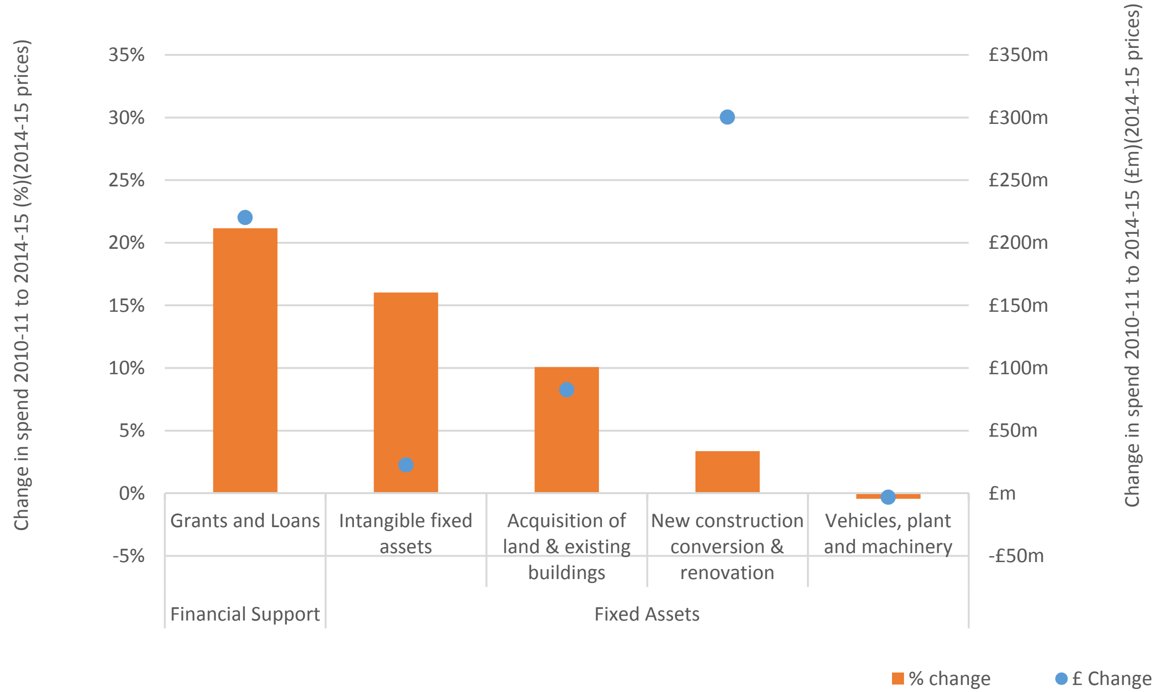
Controlling in-year costs / delivering savings

- In the first few years of austerity the sector delivered underspends on its service budgets– it was able to meet and exceed its savings targets.
- In 2015-16, however, the sector as a whole delivered a £440m overspend – its savings target was not met.

Financial self-sufficiency | **Change in capital spending**

Change in type of capital spend, 2010-11 to 2014-15



- Aggregate capital spend up by 5.4%; more rapid in non-fixed assets:
  - **21% growth in financial support** – 'on-lending' of PWLB loans
  - **16% growth in intangible assets**
- **Lower** growth in fixed assets:
  - 10% growth in land and buildings
  - 3% growth in construction, conversion and renovation
  - 0% in plant, vehicles and machinery

Challenges for the future

- The **weight and complexity** of Brexit
- **Greater uncertainty** with 100% business rate retention & progress of devolution
- Further **spending reductions** until 2019-2020
- **Variability** of impact continuing
- Increasing **complexity of delivery landscape**

Lastly…

- But greater opportunities for local government and greater importance of **place**?

Thank you

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