

London Borough of Enfield – funding reform and forecasts

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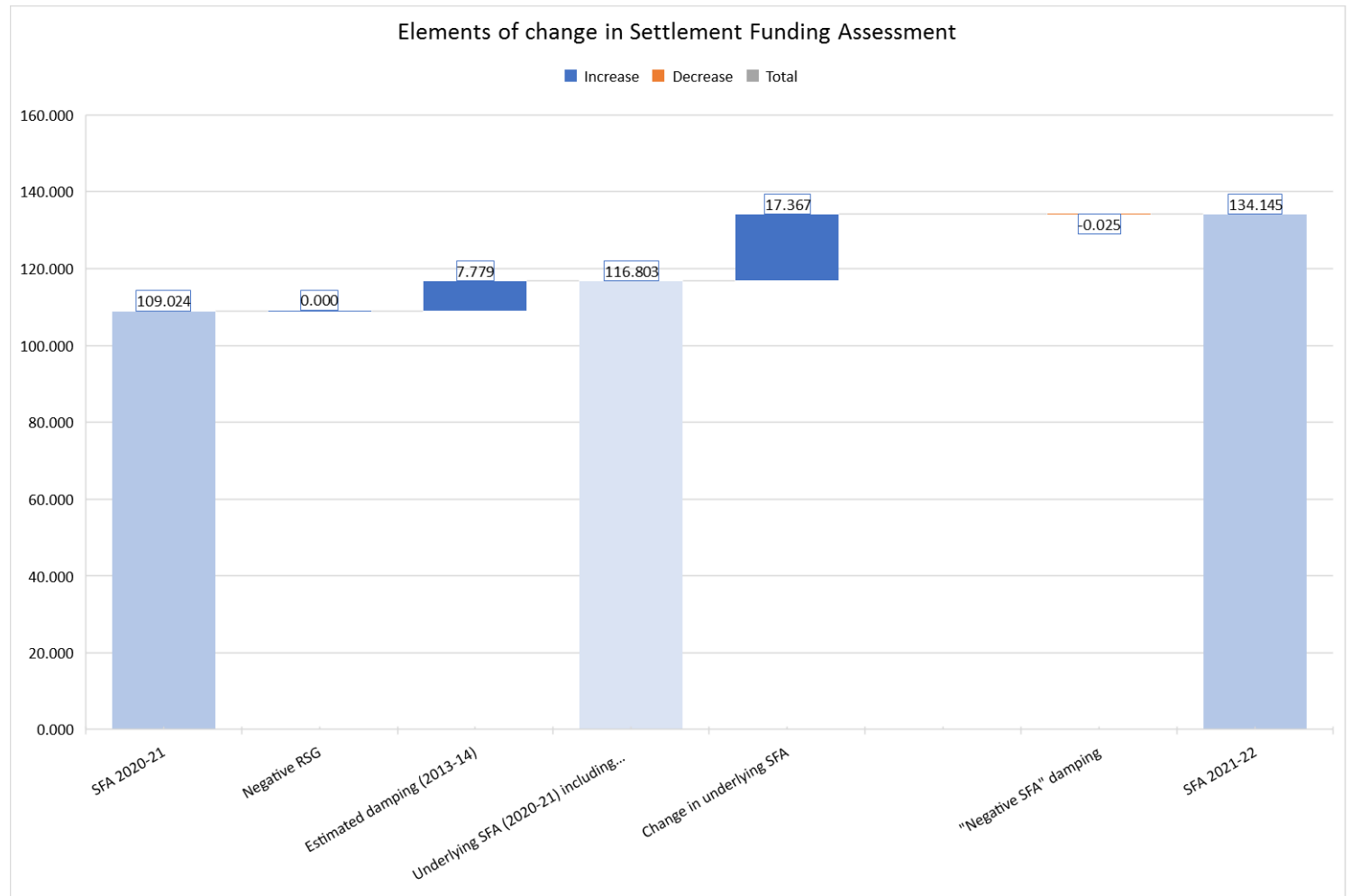
Changes to local government funding

- Major changes in local government funding expected in 2023-24 (delayed for 4+ years)
- Fair Funding Review (changing distribution of funding), reform of business rates, changes to other grants (New Homes Bonus)
- Outcomes dependent on other policy decisions: Spending Review 2021, levelling-up white paper, Treasury's business rates review, social care reform

- Pixel provides two models for subscribers: Fair Funding model and MTFP model
- Models show how these policy changes might be implemented and potential impact on every authority
- Still significant uncertainty though: we use latest data and consultation proposals – and identify key assumptions and variables

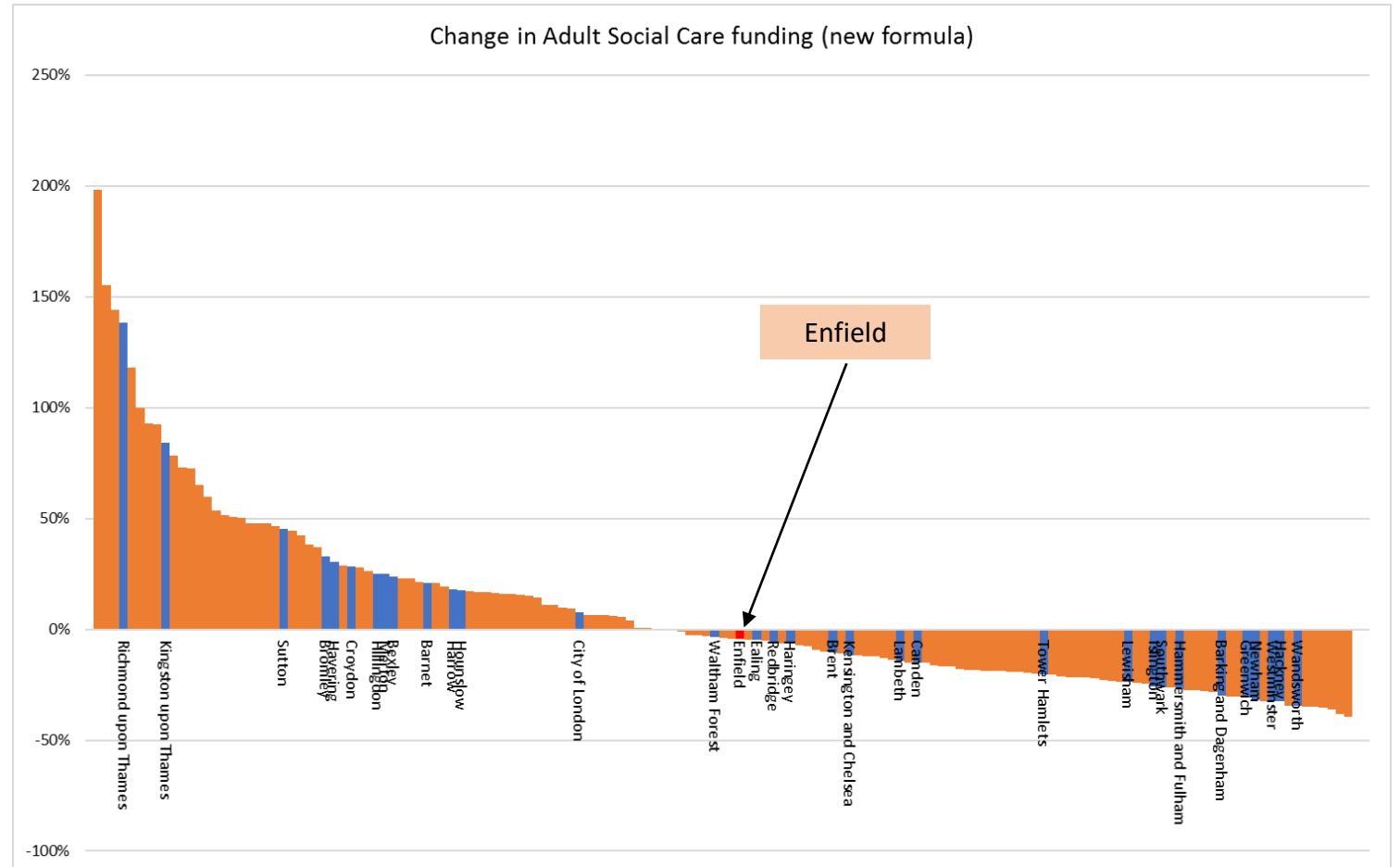
Fair Funding Review

- Latest modelling indicates Enfield will gain from FFR
- Estimated £17m gain (c.15% in underlying SFA)
- Most of gain from council tax equalisation (est. £15m) – higher share of needs than resources
- Significant gain from new public health formula (up by £7m to £24m)
- Remainder from combination of formula changes and data
- Also gains from unwinding of “damping” from 2013-14 (£7.8m)
- **Figures are very speculative but based on latest proposals and latest available data**
- **Some form of gain seems very likely though**
- **Strategy should focus on ensuring these changes are implemented**
- **But there are risks...**



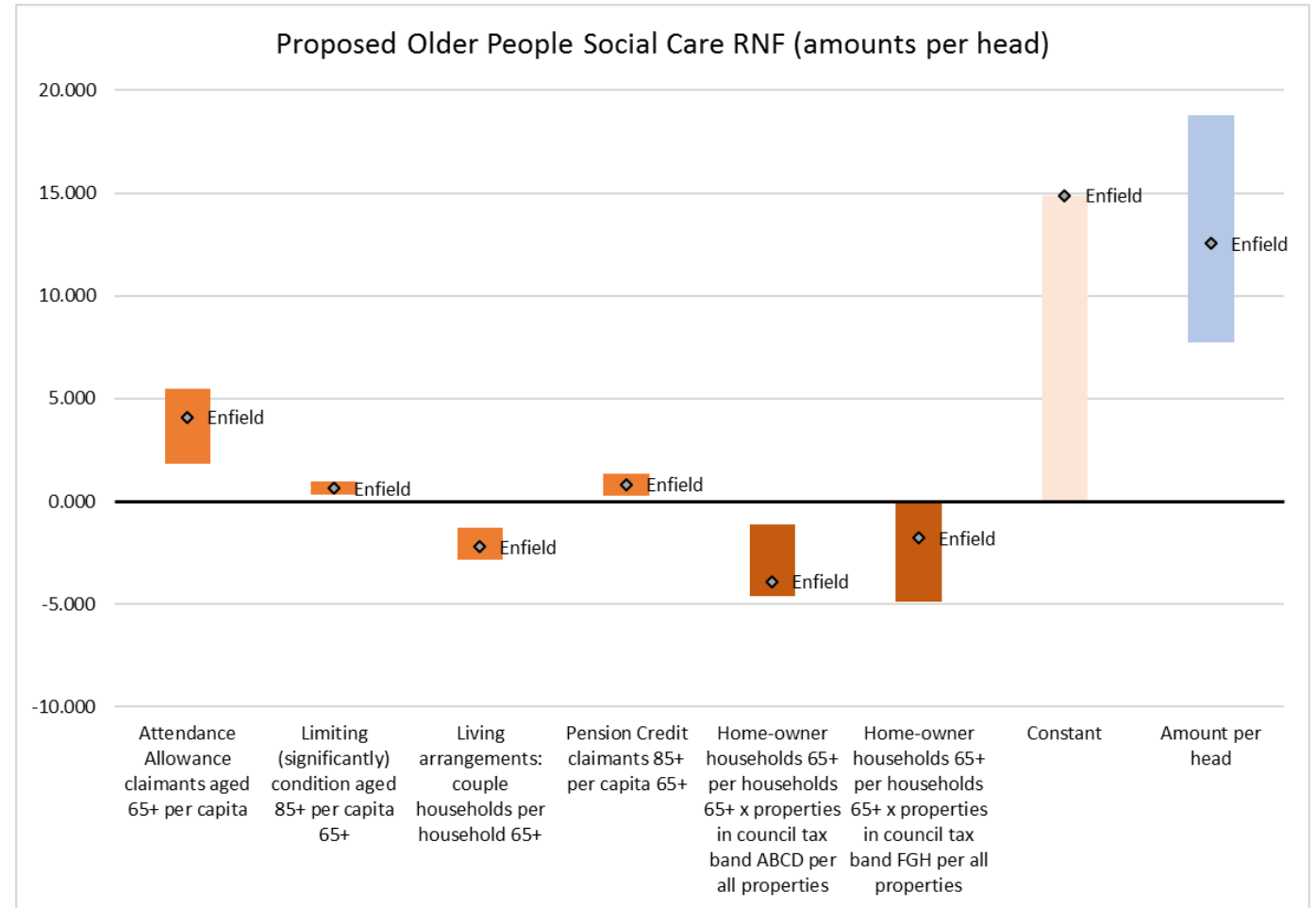
Adult social care funding

- New Adult Social Care formula developed 5+ years ago
- Based on very detailed data collection (c100 local authorities) and using multi-level modelling
- Only modest reduction in share of funding for Enfield (-4%)
- But very significant gains (outer London, “county” characteristics) and losses (inner London)
- New formula likely to apply to SFA and to existing social care grants



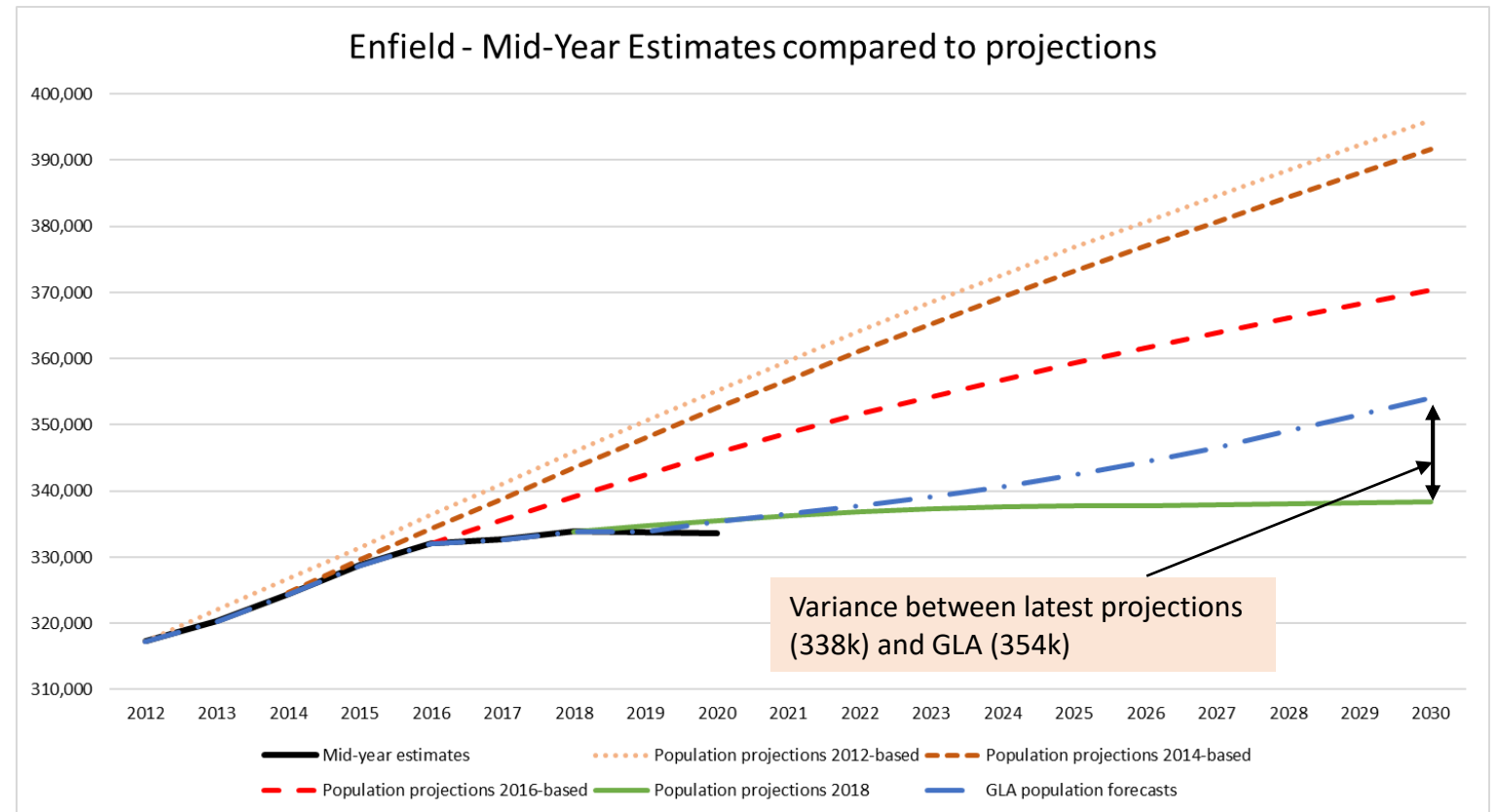
Funding for deprivation

- Initial plans to exclude deprivation from Foundation Formula – now reinstated (probably using overall score for Index of Multiple Deprivation)
- Worth relatively little to Enfield (£250,000) because its IMD score is only average (74th out of 149 upper tier authorities)
- Enfield either less deprived (relative to other local authorities) or measures used do not reflect deprivation in the borough
- Other deprivation measures used elsewhere in proposed formula, e.g. adult social care (see chart)
- **Enfield's deprivation scores are marginally above average**



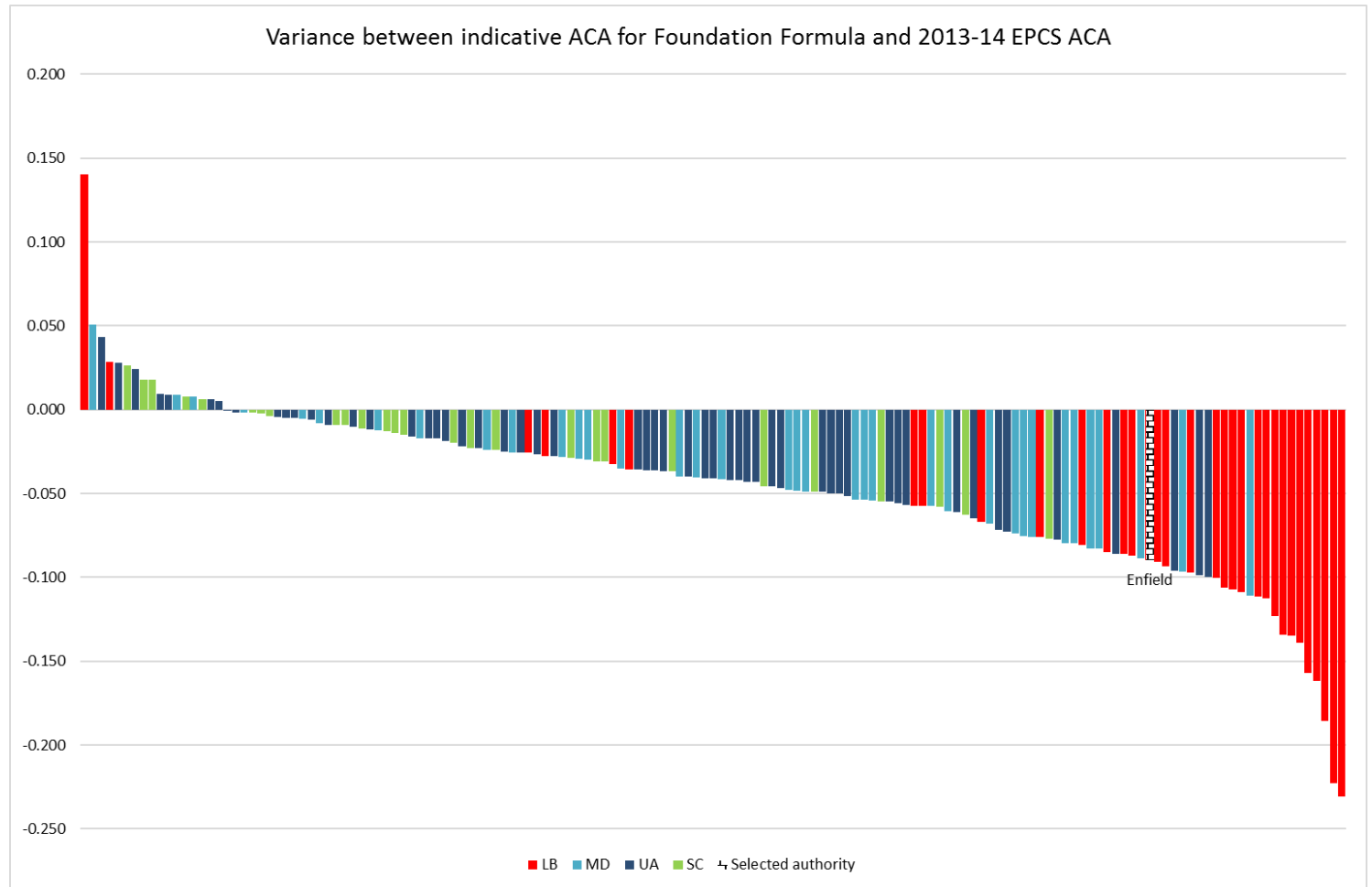
Population change

- Population growth has flat-lined since 2016 mid-year estimates
- Small population falls in mid-2019 and mid-2020 population estimates
- Cause not clear (Brexit-related?) but risk that latest populated estimates will be baked-in to funding allocations for next decade
- **What is causing the population estimates?**
- **Will trend continue into 2020 mid-year estimates (probably)**
- **Need funding formula to be updated to reflect future changes in population estimates**



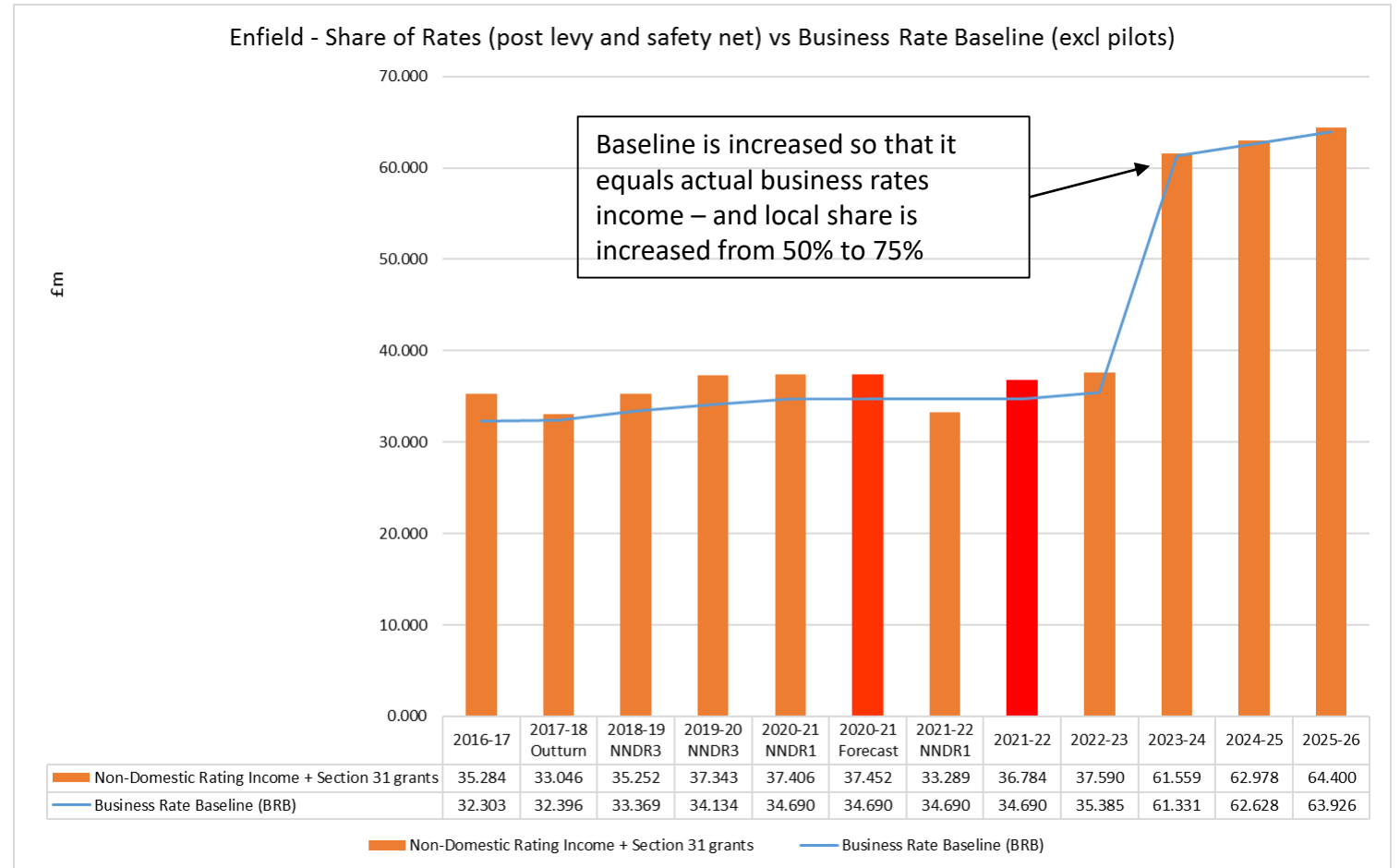
Area Cost Adjustment (ACA)

- New ACA factors reflecting labour, rates and travel times
- Travel times replaces sparsity and density elsewhere in the formula
- ACA now calculated for every local authority, not on sub-regional basis
- Significant loss for Enfield and most London boroughs because ACA based on LA only
- Tower Hamlets and Westminster only gainers in London



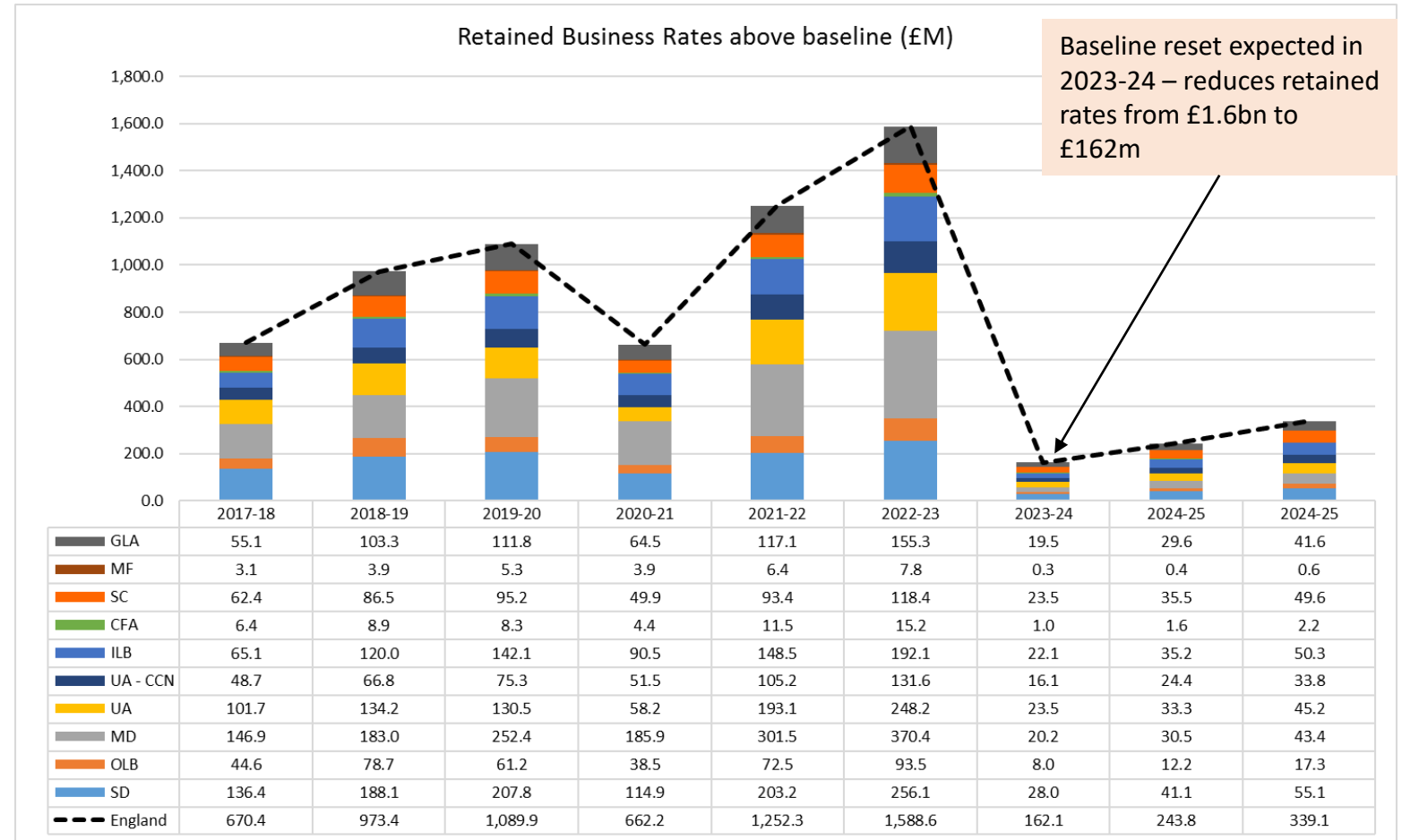
Business rates baseline reset

- Business rates baseline were set in 2013-14 and have been increased in line with multiplier since then
- Full baseline reset expected in 2023-24 (where baseline is reset so that it equals actual business rates income)
- 50% of gains above baseline retained locally (in London, boroughs keep 30% and GLA 20%)
- Expecting local share to increase from 50% to 75% in 2023-24 (and for borough split to increase to 48%)
- Enfield's retained rates have been above baseline in every year (outturn) - between 5% and 9% above baseline in most years
- Close to the national average (better than outer London average but less good than inner London average)
- Additional gains for Enfield from the London pool and from the pilot (2018-19 and 2019-20 only)
- **In the reset, Enfield will lose its own business rates growth (about £2-3m per year, depending on actual outturn)**



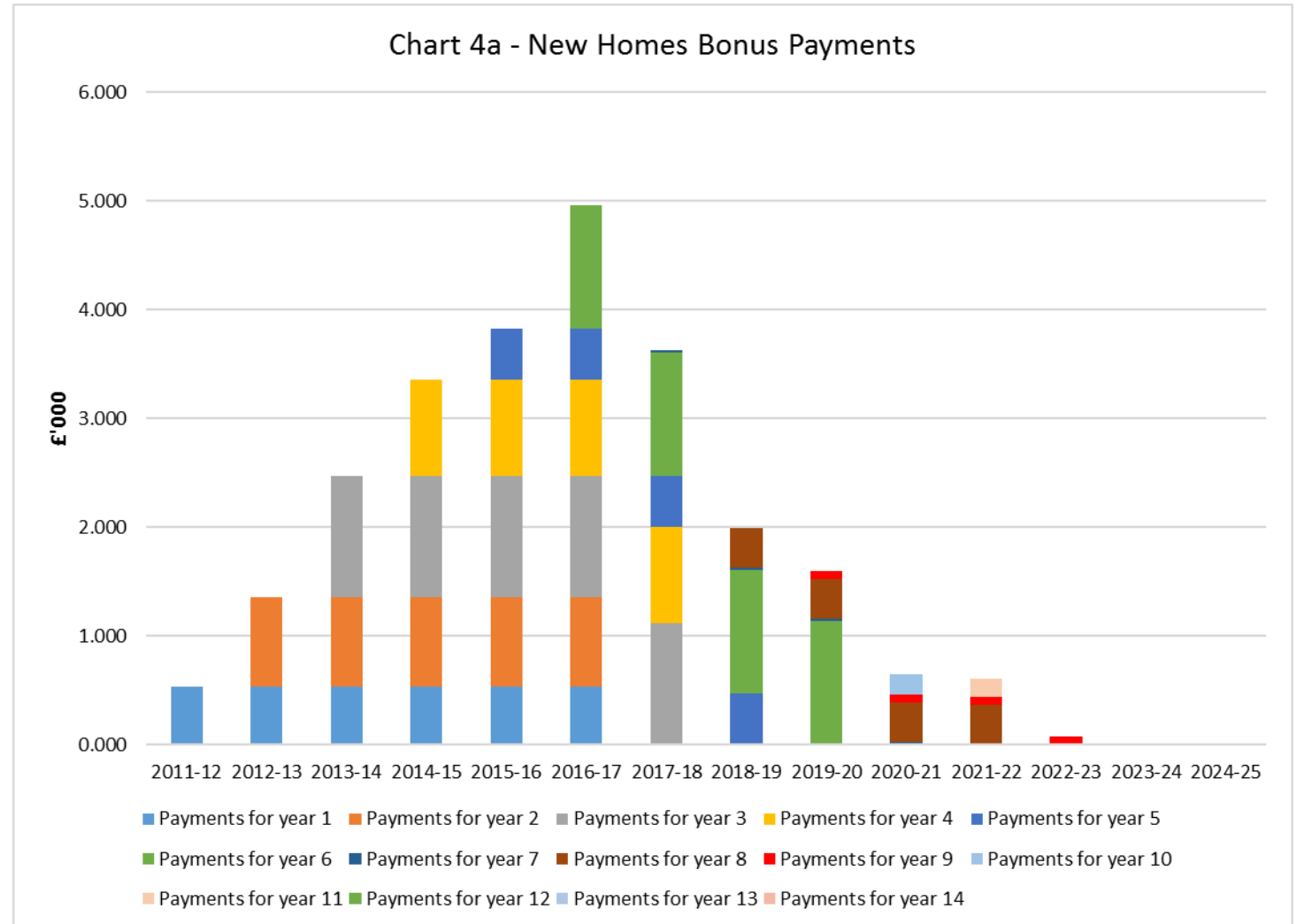
Baseline reset – national picture

- Local government currently about £1.5bn above baseline
- Actual amount not clear until shake-out from COVID
- Reset will make this amount available for redistribution – probably in line with “needs”
- Estimate that Enfield will gain £9.3m from redistribution – net gain of around £6m
- **Pressure to reset from most upper tier authorities**
- **Risk that Government uses £1.5bn surplus for other purposes or uses to fund existing commitments**



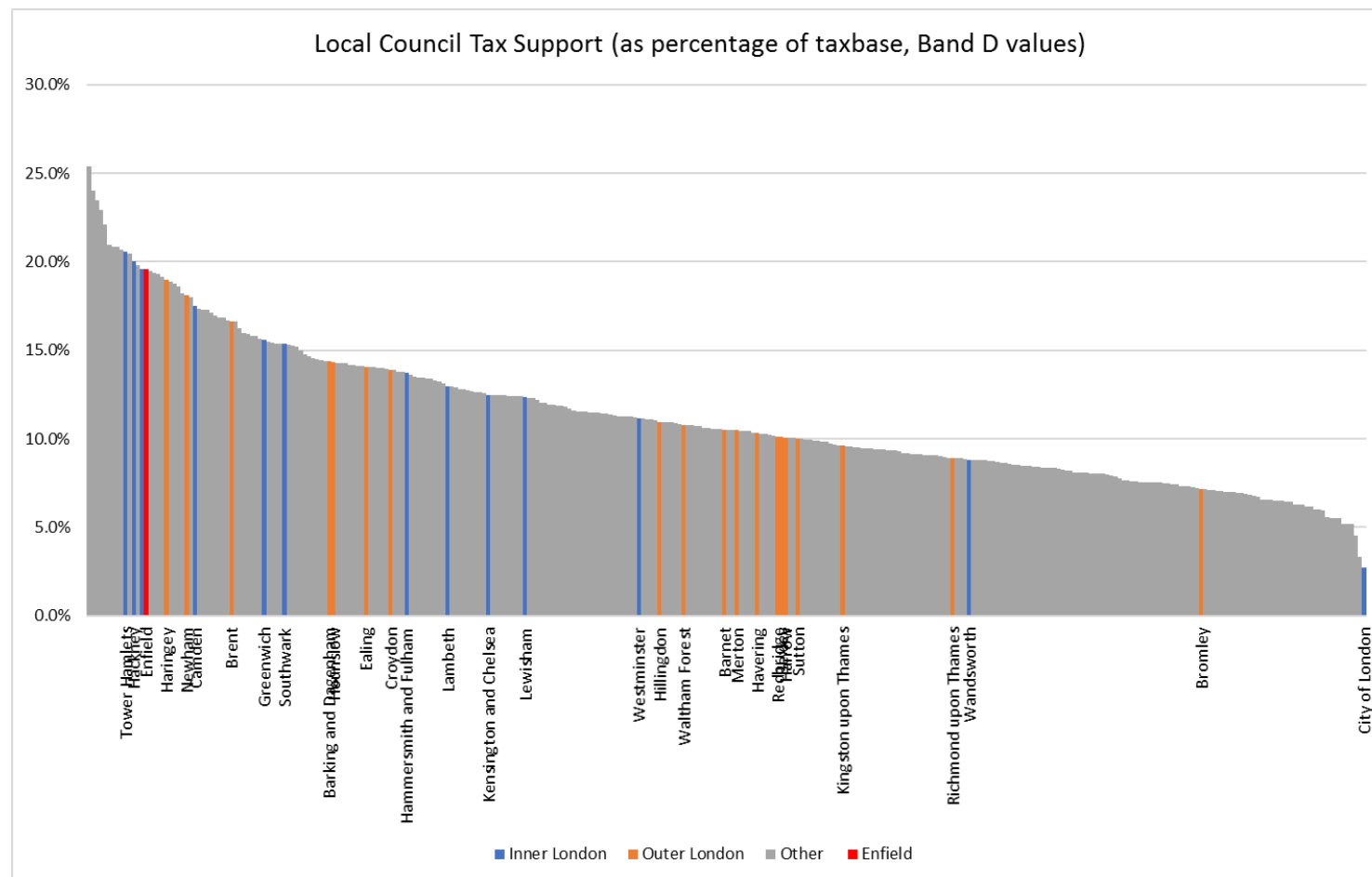
New Homes Bonus and incentive payments

- Enfield has received large amounts from NHB in recent years (nearly £5m at peak in 2016-17)
- Allocations have collapsed in recent years as (a) 0.4% threshold introduced and (b) number of years payable has reduced
- Scheme likely to be phased-out in 2022-23 or 2023-24 – with some form of replacement announced in Spending Review 2021
- **Enfield will want any replacement to reflect its housing-building growth – but would be better-off with funding distributed via “needs”**
- **Although if full £900m were to be returned to local government, Enfield would receive £4.5m per year**



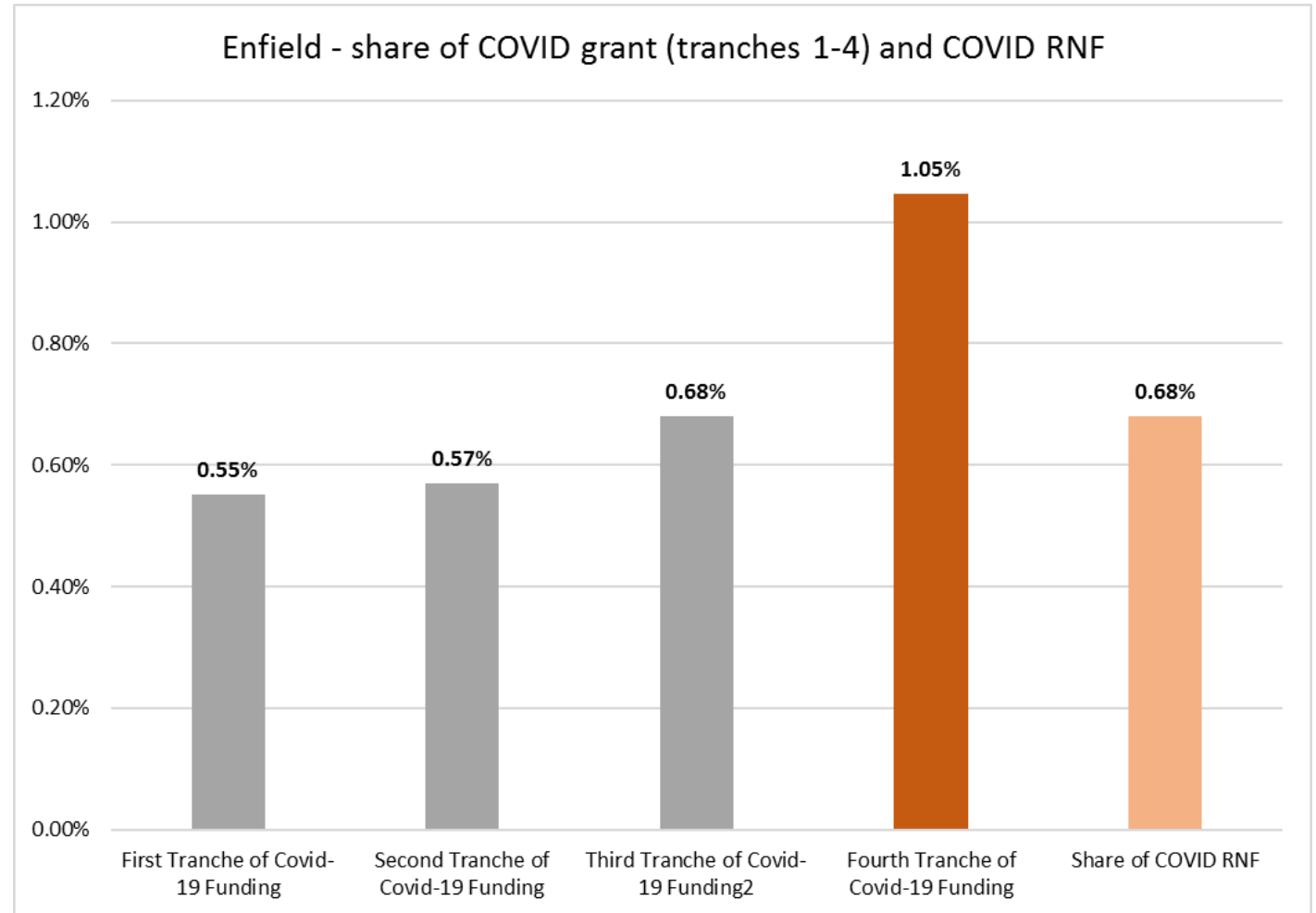
Council Tax Support

- Enfield has 15th highest CTS in England (out of 314 authorities) (as percentage of taxbase) and only marginally lower than any other London borough (19.6% compared to 20.6% in Tower Hamlets)
- Band D value of CTS has fallen since its transfer to local government in 2013-14 – but by less in Enfield than the national average (and some signs of increase in Enfield even before the pandemic)
- Cost of CTS has increased because Band D has increased significantly since 2013-14
- Distribution of CTS is not equal – largely driven by deprivation and by low income
- High levels of CTS is only indicator that shows deprivation within Enfield (largely around low pay)
- **Strong case to have funding for CTS reset in same way as council tax is equalised**



COVID support

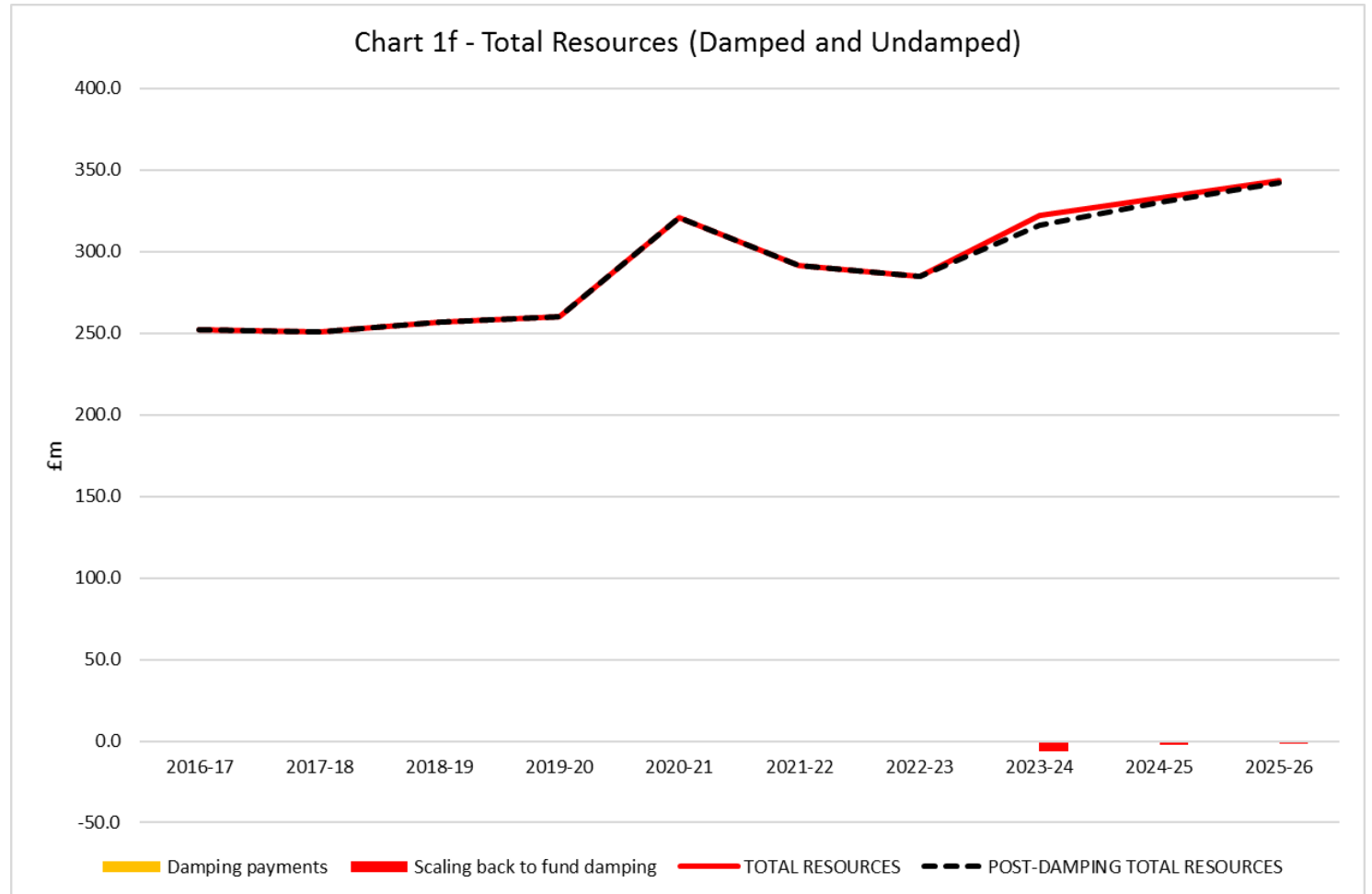
- Tranches 1 and 2 used combination of Adult RNF and tier splits (0.55% and 0.57% for Enfield)
- New COVID RNF developed for tranche 3 (using expenditure data from COVID monitoring returns)
- Enfield receives 0.68% of COVID RNF (greater than share of Adult RNF)
- Tranche 4 was a balancing payment (ensured every authority received total funding over four tranches based on COVID RNF)
- No more funding will be made available (T5 will be last general grant allocation) and data suggests sector already over-funded for immediate COVID costs
- **Longer term recovery costs more likely funded through SR21**



Total resources and damping

- Overall, Enfield is likely to gain from all funding changes in 2023-24
- **Gains:** FFR, baseline reset, phasing-out NHB
- **Losses:** social care funding, ACA
- **Risks:** population projections, council tax support

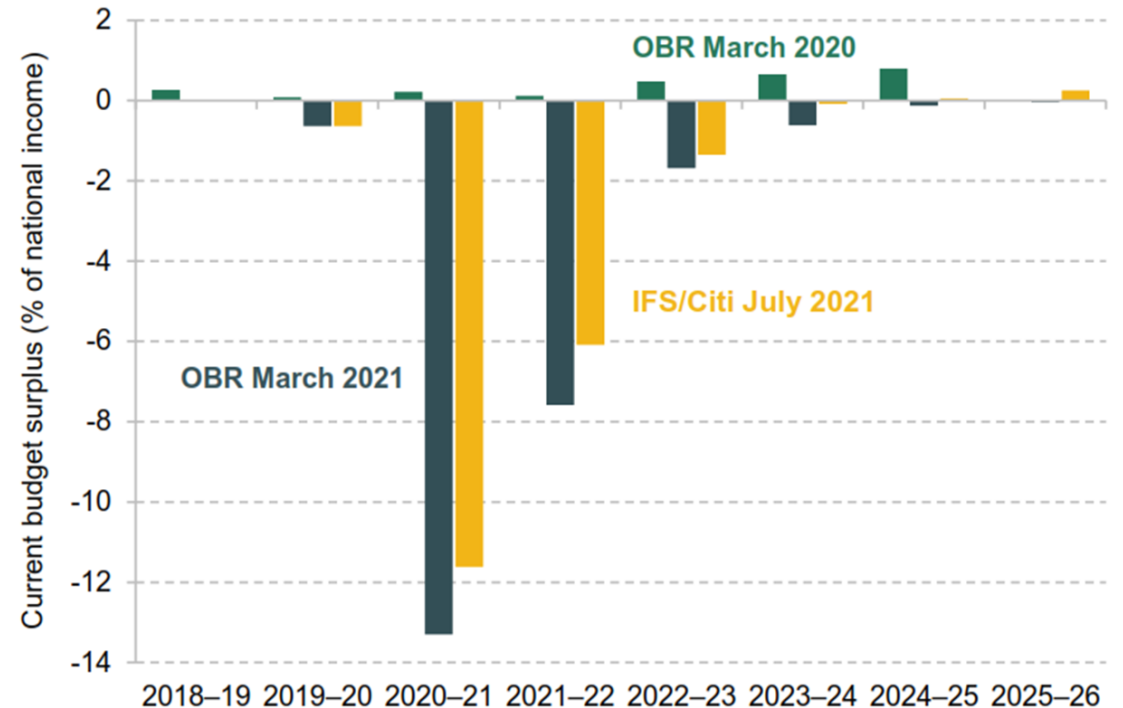
- **Assume damping based on total resources (including business rates) – so wider than Core Spending Power**
- **Assume no authority has an annual reduction of >5%, and damping funded by scaling-back increases in other authorities**
- **So, Enfield paying £6.0m in 2023-24, £2.6m in 2024-25 and £1.5m in 2025-26 (VERY SPECULATIVE!)**
- **Enfield would benefit from implementing funding changes as quickly as possible**



Short and medium term funding

- **Rollover settlement in 2022-23**
- Multiplier increase (2.1%)
- SFA increase (negative RSG continues to be funded)
- Lower Tier Services Grant
- No other grant increases (social care only)
- Band D (higher of 2% or £5)
- Risk of interim baseline reset (floating TTs?) or aggressive levy
- **Medium Term:**
- Real terms cuts for non-protected services (0% to 2% cash terms growth)
- Additional funding for social care (real terms growth (2+%), partly funded by ASC precept)
- 2% increase in council tax – plus Band D increases (2-3%)
- **Cash terms increases in funding (better than 2010 to 2015) but not keeping pace with demographic pressures**

Figure 3.4. Forecasts for the current budget surplus



Note: Assumes an exceptional £10 billion underspend on current spending in the financial year 2021-22, partly due to the £55 billion 'COVID Reserve' being only partially drawn down.

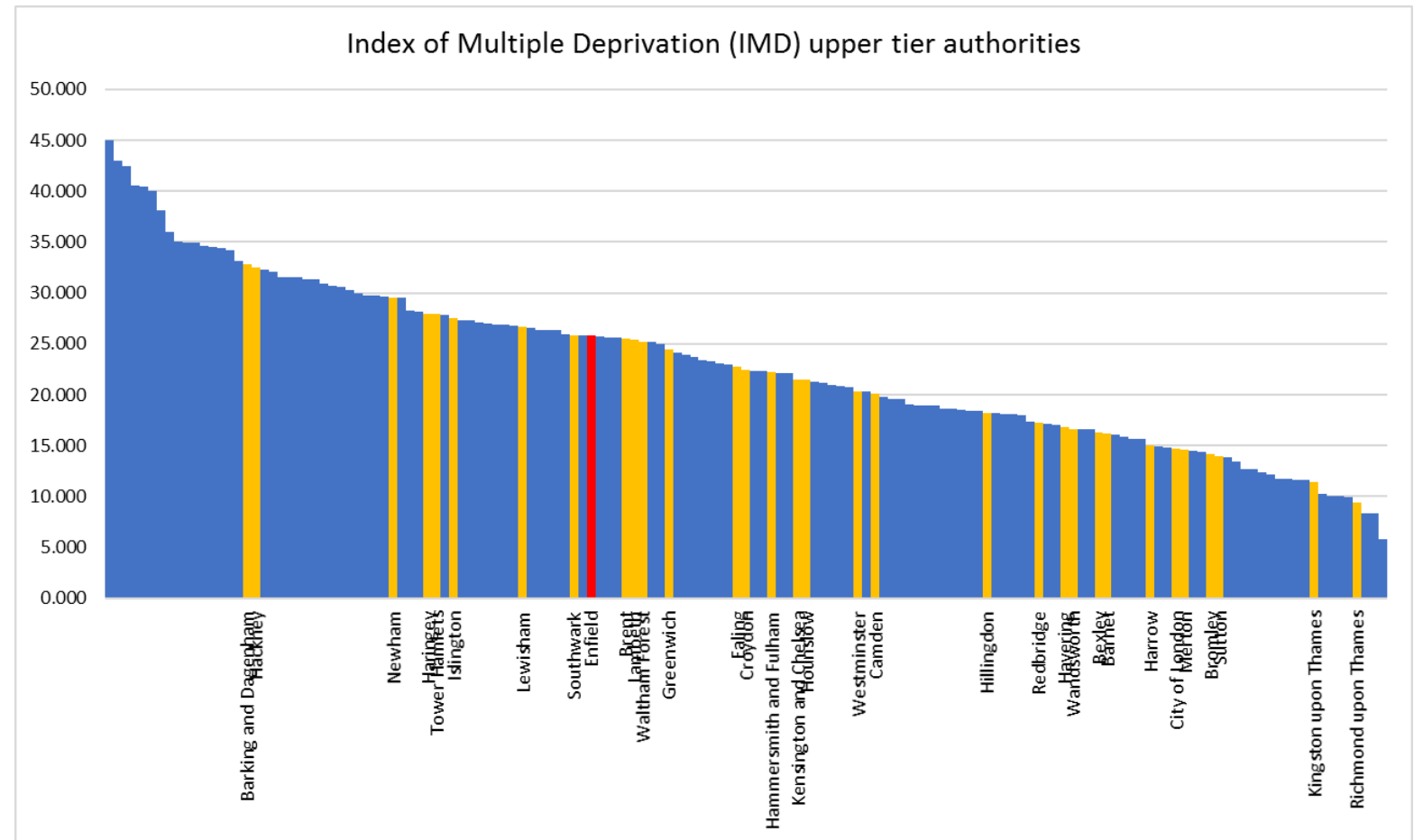
Source: Authors' calculations using Citi forecast.

Future of local government funding

- Spending review and public finances
- COVID recovery (catch-up plans)
- Levelling-up (direct funding, new funding “pots”, political focus)
- Devolution (unlikely to affect London but could have spin-off implications)
- Business rates reform (revaluation frequency, possible replacement, Internet tax) and changes to local BRRS (75% local share, reformed pooling)
- House-building (support and incentives)
- Climate change (costs and implications for other policies)
- 10- to 20-year forecasts and spending plans (financial resilience?)

Levelling-up

- Fair Funding Review – already puts funding where needed for levelling-up
- Baseline reset – again, mostly good for levelling up
- Enfield has some characteristics similar to typical “levelling up” authority
- New sources of funding (Towns Fund, Levelling up Fund) unlikely to go to Enfield (or London generally)
- Enfield does not have high scores on levelling up criteria: high levels of GVA, low travel times and low levels of empty property and NVQ qualifications (only 16+ unemployment is high)
- Index Multiple Deprivation (IMD) – relative deprivation reducing in London, particularly inner London (Enfield 74 out of 149 authorities)



Lobbying agenda for LB Enfield

- Generally supportive of changes in funding (net gain), including FFR and business rates baseline reset – and press for shorter transitional period
- Challenge some formula changes (adult social care, ACA)
- Population projections (major risk)
- Support greater certainty in local government funding (will be difficult if funding reforms are implemented during SR period)
- Reset cost of Council Tax Support (key measure of deprivation in Enfield)
- Climate change (costs and impact on other policies, e.g. housing)