

Debate: Brexit and local government in England – the challenges ahead

Authors:

Dr Laurence Ferry – Professor in Accounting, Durham University

Dr Peter Eckersley – Postdoctoral Research Associate, Department of Politics, University of Sheffield

Although the nature of the UK's future relationship with the European Union (EU) remains uncertain in early 2018, it is clear that Brexit will have a monumental impact on public services, including English local government. The scale of the challenge that councils face is far too great to set out within a short debate piece for PMM, but we have sketched out some of the key implications below.

Financial implications

Firstly, Brexit will have major financial repercussions. Chancellor Philip Hammond's 2017 Budget acknowledged that economic growth in the UK will be sluggish for the foreseeable future, and that is based on the assumption that the UK will exit the EU in an orderly fashion. This will obviously have a major impact on the UK Government's taxation revenues and probably prolong the fiscal austerity that has seen central funding to local authorities fall by 40% since 2010. More directly, English local government receives a significant amount of money through the EU's Structural, Social and Regional Development Funds (a total of £8.4bn between 2014 and 2020) and has relied on this to finance expansionary economic development and regeneration policies (Sandford 2016). Unless the UK Government develops an alternative funding mechanism this money will disappear after Brexit takes place. Such an eventuality would lead to councils relying even more on borrowing to fund

capital expenditure, and have a concomitant impact on future revenue spending through interest payments.

With the proposed changes to business rate retention, which would result in councils keeping a larger proportion of the revenue raised through this levy in their areas, slower economic growth will also have a more direct impact on local government income. Given much of the UK's economic growth in recent decades has been concentrated in London and the South East, we can expect northern councils to be hit particularly hard as a result, unless there is a serious attempt to redistribute this revenue across local government. Indeed, even within London there are enormous differences in the amount of business rates collected by councils that have similar-sized budgets (Ware 2017). Similarly, areas that are heavily-reliant on foreign direct investment, which risks falling if and when the UK Government sticks to its stated aim of leaving the EU single market and customs union, may be more affected than others.

As has been frequently debated, the overall funding system and allocation mechanisms for local government need to be reviewed. They should be calculated according to outcomes, need and population, with links to place-based accountability. However, given the political toxicity of attempting to change local government funding and the capacity constraints associated with Brexit, this is unlikely to happen in the short term (Ferry, 2017).

The impact on staffing and local demographics

Secondly, apart from financial implications, local government will be affected by reduced inward migration (and potentially increased outward migration) that will result from Brexit. For instance, whilst local government has a smaller level of EU workers than the UK

economy in general, specific areas of work are more reliant on immigrants. The social care sector, which has struggled with recruitment for many years, is a case in point: in September 2016 around 7 per cent of its workforce (a total of 92,000 individuals) were nationals of the other 27 EU countries (Helm 2017), with additional workers from countries outside of the EU. At the same time, however, if immigration falls, this may relieve some pressure on local public services, particularly housing and education. Such effects would also be asymmetric across the country – since councils in London are much more reliant on migrant labour than those in the north, and some parts of England have much higher proportions of EU migrants than others.

Regulatory changes

Thirdly, leaving the single market and the regulations and directives that govern it would also have a major effect. Under the terms of the Landfill Directive, many councils currently pay large fines due to the percentage of waste that they do not recycle or compost; local government and ministers may potentially look to develop more lenient regulations following Brexit, especially if pressure needs to be relieved on the budget. Other regulations, such as the Working Time Directive, may also come under pressure – and potentially enable councils to demand more of their staff, though at the risk of them becoming less productive. Perhaps most importantly, leaving the single market would mean that UK public bodies are no longer subject to EU procurement rules, which could streamline purchasing processes and potentially make it easier for councils to favour local or more sustainable suppliers and associated supply chains than is currently the case. On the flipside, however, shorter and less complex procurement processes could well mean that councils do not get the best deal – and they might also open the door to corrupt practices.

Increasingly detached central government

Finally, the opportunity cost of dealing with Brexit will be enormous. Brexit Secretary David Davis has acknowledged that leaving the EU will be the biggest administrative challenge since the end of World War Two, and it will be the overwhelming focus of central government activity over the medium term. As a result, ministers and civil servants will have much less capacity to focus on other priorities (Ferry and Eckersley 2017). Local public services that face serious crises (such as social care or housing) may therefore be relatively neglected in Whitehall, and it could largely be left up to councils to try and address them. Other reforms that have been mooted in the past, including the introduction of unitary councils across England, will potentially fall by the wayside. Although the ‘devolution deals’ have continued to progress in recent months, much of this work was already in pipeline before the referendum in June 2016. Furthermore, the fiscal situation may make central government even more likely to use devolution as a useful mechanism through which it can divest itself of expensive functions and responsibilities, in the knowledge that Whitehall has diminishing capacity to undertake them.

In sum, therefore, it is fundamental that local government is in a position to support economic growth and social cohesion post Brexit, but it is likely that local authorities will have to deal with ever-tightening fiscal pressures whilst receiving increasingly less support from central government. The overall impact of this accelerated ‘austerity localism’ (Featherstone et al 2012) will probably be even more changes to service delivery models, with greater roles for the private and voluntary sectors and councils trying to find increasingly innovative ways to generate revenue that often carry significant risks. This would mean that public servants (and, by extension, the voters) will exercise increasingly less control over public services, with

serious implications for public accountability and how citizens perceive the whole Brexit process.

References

Featherstone, D., Ince, A., Mackinnon, D., Strauss, K. and Cumbers, A. (2012), Progressive localism and the construction of alternatives. *Transactions of the Institute of British Geographers*, 37, 2, pp. 177-182.

Ferry, L. (2017). Impact of Brexit on Local Government – First Oral Evidence Session. Communities and Local Government Select Committee evidence, 6 December 2017 (<http://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/news-parliament-2017/brexit-local-gov-17-19/>).

Ferry, L. and Eckersley, P. (2017), Debate: Freedom, power and capacity – analysing the fallout from the UK's 'Brexit' referendum. *Public Money and Management*, 37, 1, pp. 2-3.

Helm, T. (2017), Number of EU care workers in UK surges. *The Guardian*, 25 February 2017 (www.theguardian.com).

Sandford, M. (2016), *Brexit and Local Government*. House of Commons Library (www.researchbriefings.parliament.uk).

Ware, G. (2017), Debate: Turning up the volume. *Public Money and Management*, 37, 6, pp. 431-432,