

Under pressure

How councils are planning
for future cuts

Contents

1. Introduction	3
2. The scale of the challenge	4
3. The scope for efficiencies	6
4. Other options	8
5. Use of reserves	12
6. Conclusions	15

1. Introduction

Councils are currently half way through a scheduled 40 per cent cut in funding from central government. Having delivered £10 billion of savings in the three years from 2011/12, local authorities have to find the same savings again in the next two years. As a result of these cuts councils in many areas will not have enough money to meet all their statutory responsibilities.

Our future funding outlook model predicts that the amount of money available to deliver some of the most popular local services will shrink by 66 per cent by the end of the decade. This is likely to result in less money to spend on things such as filling potholes, providing youth services and funding leisure facilities (pools, gyms and parks). It will also mean less money to spend on libraries and a significant reduction in the help that councils can provide to local businesses.

Councils across England are preparing strategies to help mitigate these pressures. Local circumstance dictates what options are available for quick cost savings or income generation and the nature of the decisions that need to be made to achieve a sustainable financial position.

The Local Government Association (LGA) invited councils to share some details about their financial planning for the rest of this Parliament. Seventy-three councils, or about 20 per cent of English authorities, responded to our call for evidence on their financial situation in late 2013. This level of response and the fact that responses were received on a voluntary basis means that the following results should be viewed only as a snapshot. However, this was a large number of responses for such a qualitative analysis and therefore indicates well the range of pressures being felt and strategies being developed by the sector to deal with the financial situation in councils.

We did not want councils to be limited to a set of predetermined answers, so our questions were open-ended. As a result the responses were freeform and we were only able to take into account those approaches councils mentioned. The percentage of councils considering one approach or another might in fact be higher than reported and explicit mentions are likely to mean that councils regard these as central to their financial stability. It is also worth bearing in mind that the responses were submitted before the local government finance settlement was announced in late December 2013. This may have changed a council's approach.

Section 3 discusses the overall thoughts of councils on the question of whether a reduction in services provided will be needed to deal with the challenge in 2015/16.

Section 4 deals with other elements of the councils' financial strategies.

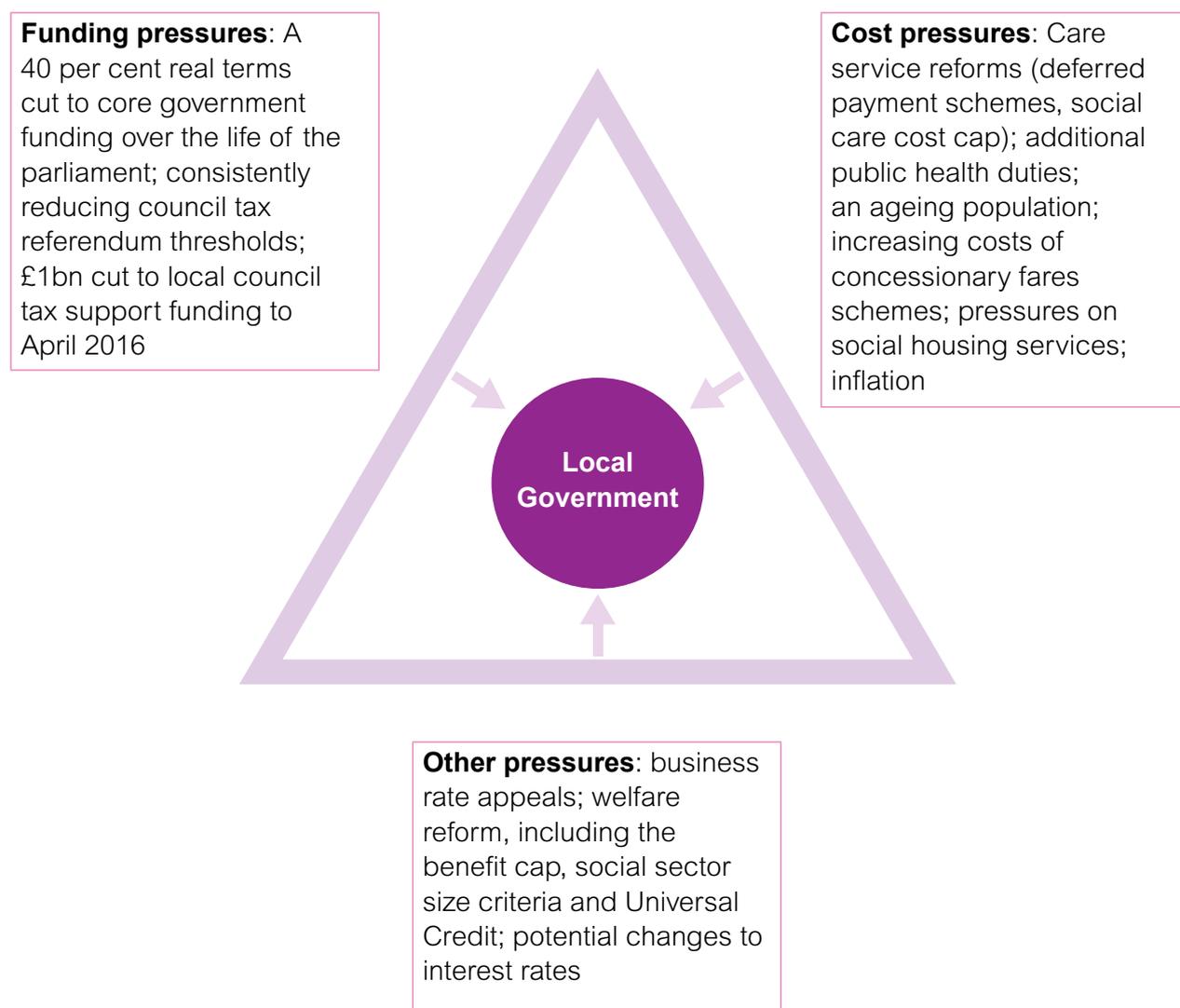
Section 5 looks at council plans on using reserves in more detail.

The results provide a clear snapshot of the financial health of local government, which highlights and expands our understanding of the challenges and substantially confirms the results of the future funding outlook model and other sources. The variety of pressures felt and strategies being developed show that while the situation each council faces is unique there is a pattern emerging and evidence of preferred solutions.

2. The scale of the challenge

2015/16 is shaping up to be a year when many councils will have to make very difficult choices about which services to prioritise. Some services have already been reduced and may need to be cut altogether. There is no single reason why 2015/16 should be such a difficult year (although nationally the cut in government support to local authorities will be the largest since 2012/13), but rather the squeeze is a result of an accumulation of funding reductions, expenditure pressures, which have been building over a number of years, and a series of other risks. Figure 1 below illustrates a selection of contributing factors under these three headings.

Figure 1. Pressures facing local government



The picture is not universal across all councils and the impact on each council will vary depending on how exposed it is to each of these factors. Some may not feel the crunch until later. However, our analysis shows that 2015/16 is the year in which 60 per cent of councils say they are currently considering some degree of service reduction to help meet the budget gap. It is also important to note that the funding allocations for 2015/16 have only been illustrative, which means that they are subject to change and only add to the uncertainty.

Councils have to realistically assess their ability to provide the same services as before by finding all of their required savings through increased efficiency. For example, some may have started reducing their operating costs before the reductions in funding began, leaving them with a smaller range of options to increase efficiency.

In order to avoid cuts to services, authorities are increasingly looking for ways to rewire service delivery to ensure that services remain fit for purpose in the context of smaller budgets. For some this means revisiting the expectations of residents in order to protect services for the most vulnerable. It is also an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes of public spending.

If these solutions cannot be delivered in time or in sufficient quantity, councils have to consider cutting services altogether. Some councils may find themselves in this position whatever they do.

Councils have to consider other ways to strengthen their financial position, ranging from income generation to changes in local taxation.

The financial strategy will also involve considering the utilisation of reserves in various ways – from temporarily postponing some of the financial pressures arising as a result of cuts to funding, to investing in schemes that allow services to be delivered cheaper. The use of reserves is only a one-off option and always has to be considered in the context of the risks an authority faces.

The review of council responses tried to cover each of these aspects and they are addressed in turn in this report.

The LGA is continuing to analyse the different ways in which austerity is affecting local authorities which gives rise to different approaches that need to be adopted to cost saving and service delivery and will be working with the sector and individual authorities on this question over the coming months. We expect to publish more on this question in due course.

3. The scope for efficiencies

One challenge is whether council strategies are able to continue to absorb reductions in funding, and all the other pressures, through increasingly efficient ways of working. True efficiency means configuring services so that, even if fundamentally changed, they provide the same outcomes at a reduced cost. Indeed, many councils have engaged with this challenge by changing the way they work internally and with local partners.

For example, at least 95 per cent of all English councils have now engaged in some form of shared service delivery¹, with most of the focus on back office functions – although initiatives to share frontline services are popular as well. Shared service delivery spans across more than one sector, as councils seek to share buildings with other public service providers, such as the Police.

So far, these initiatives have been largely successful. This is being acknowledged by residents as well – a recent poll found that six out of 10 residents felt local services were either improved or maintained². However, the majority of respondent councils said that at least to some extent continued efficiency savings will not be enough to tackle the challenge that 2015/16 represents. Our work shows that one in five councils have so far made the decision (and believe they have the capacity) to avoid service cuts through continued efficiencies in 2015/16. It is clear that the current top down system does not give places sufficient flexibility needed to meet the challenge by using the relative strengths of their local economy and working with partners to reform public services.

In total, 60 per cent of authorities say that under the current circumstances they will not be able to cover their budget gap with future efficiencies alone in 2015/16. Almost a third of councils mentioned that they have very little or no scope to reconfigure services further and that some service cuts are inevitable while another third believes that while the scope for further efficiency is still available, it is not enough to avoid any consideration of reducing the services offered to local residents.

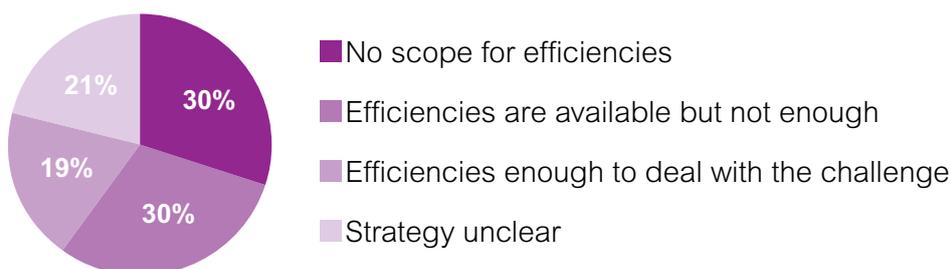
This shows that there is little time available for government to enable and encourage local partners to work with local authorities to rewire public services before councils run out of other possible avenues to save money and are forced to reduce their service offer to residents.

Figure 2 illustrates these results. Twenty-one per cent of councils are still considering their broad approach for 2015/16. Our analysis of council responses shows that 36 per cent of councils still have some unclear aspects about their strategy. In many cases this will be a result of difficulties assessing the risks councils will encounter in 2015/16.

1 For more details, please see the LGA's shared services map: <http://tinyurl.com/p6urmkg>

2 BBC. 'Public service cuts: did we notice?' <http://www.bbc.co.uk/news/uk-24454006>

Figure 2. The scope for using efficiencies to tackle the 2015/16 challenge



Authorities do not take decisions to reduce services to residents lightly. Apart from the political imperative to avoid this, authorities need to follow a clear process in order to achieve savings by this route. There has, for example, been an increase in applications for judicial reviews against councils reducing provision of services such as libraries³. Cutting back services is not an easy option either politically or practically, so to find a large proportion of authorities considering doing this should be taken seriously.

Here is a selection of councils' comments on the potential for further efficiencies:

“Our current budget models (even after allowing for some integration transformation funding from health) suggest that we will have a budget gap in 2015/16 which will continue rising if no action is taken. The reality is that we will be decommissioning or spending less on many services in the future and because we are working on an already significantly reduced budget then there will be an impact on the frontline.”

“We haven't yet identified anything that we need to switch off entirely but we don't expect it to be long before we do.”

“We are already part way through a thorough review of all services which challenges whether our service standards can be reduced or non-statutory items ceased completely as it is very clear to us that, given the efficiencies we have already achieved in recent years, there will inevitably be significant service cuts required.”

“In this revenue budget process we have sought to make further reductions in spending without stopping any services. Some frontline services will be altered or reduced, but there is an inevitable consequence that we will be asking already hard pressed staff to do even more to seek to deliver the quality of services that we think our public deserve.”

“We have delivered all savings... except for delivering some shared service savings in conjunction with our two partner councils. We have received a DCLG (Department for Communities and Local Government) cash transformation award and will be putting in place a transformation programme to deliver these savings... No services have to be switched off.”

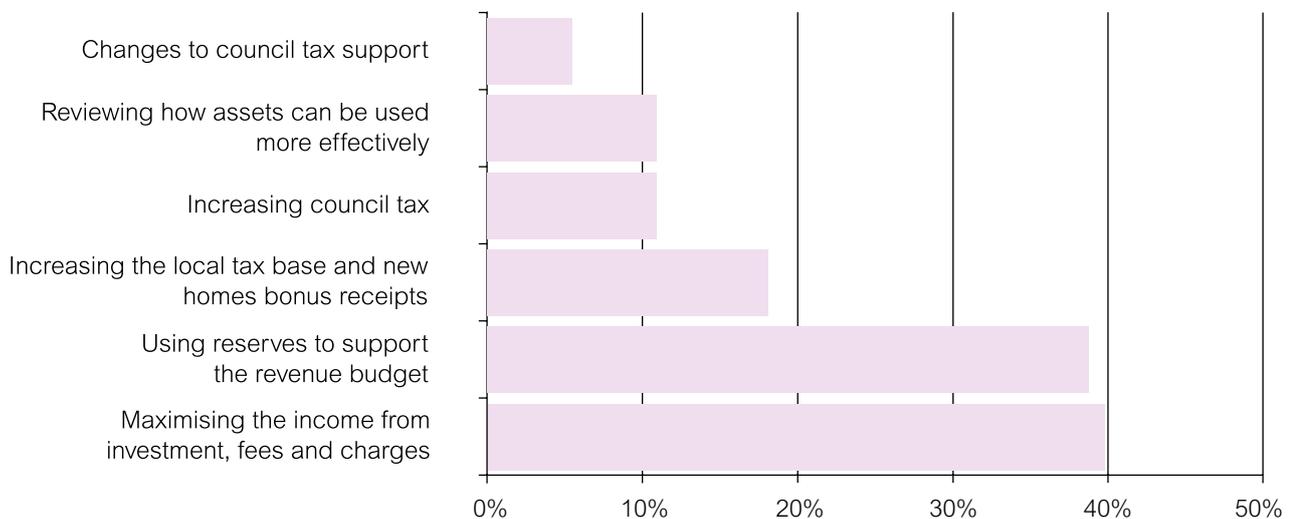
3 See, for example, this article from the Local Government Lawyer: <http://tinyurl.com/nph58kq>

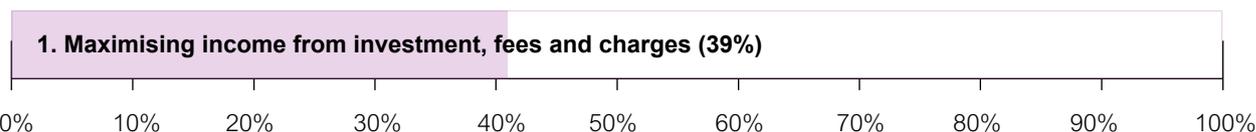
4. Other options

Alongside the core argument about reforms or reductions to frontline service provision, councils are considering a range of other strategic options, ranging from more commercial to more traditional approaches. Figure 3 identifies the most common strategies and the rest of this section will address the top five in turn.

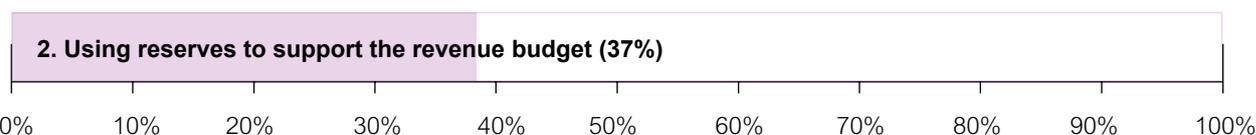
It is worth noting that all councils will have gone through, or are going through, a process of evaluating each of these options and the effectiveness they could bring to their local areas. Just because a strategy is less common does not mean that it was not considered on its own merits by respondent councils. Not all approaches will be suitable to every area and authorities, in consultation with their residents, are in the best position to evaluate local factors. Authorities are not limited to using one approach and many are adopting a combination of these.

Figure 3. The most common council strategies to tackle the 2015/16 challenge

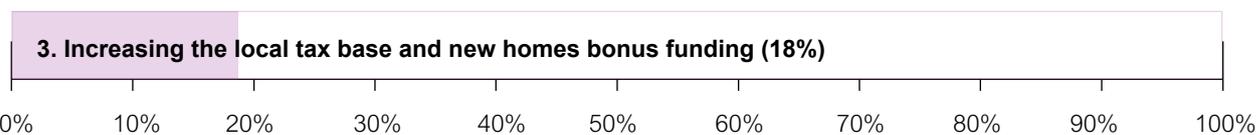




For many councils, raising more income seems to be a preferred strategy. Some are looking for ways to ensure their investments generate the maximum possible income. Others are looking at their fee charging structure to ensure that, while remaining equitable, service charges move closer to recovering the full costs of providing those services. Local authorities cannot charge users of many core services, such as street lighting. However, authorities can charge up to the full cost of provision of discretionary services, such as leisure centres. When it comes to such non-mandatory services, increased charges might be the only option available to make sure they can continue to be provided.



A majority of councils are planning to rely on the use of reserves either to delay the impact of cuts or to buy themselves time to see financial benefits of implementing money-saving schemes. A third of respondent councils plan to do this in 2015/16. Local authorities recognise that a reliance on reserves is not a sustainable strategy. Reserves are one-off pots of money which, when used once, are gone forever. One per cent of respondent councils do not have any reserves available to be used in this way. In addition, authorities need to retain appropriate levels of reserves to deal with emergencies, such as flooding⁴.



Local authorities are looking at ways to increase their local tax base, mainly through encouraging more house building. This has a double financial effect of providing council tax revenue from additional occupied homes and new homes bonus funding from central government. Similarly, encouraging the growth of the local economy can potentially lead to more locally retained business rate income and reduced welfare costs. However, our recent research⁵ has shown that many authorities fear that the risks arising from business rates appeals may outweigh any potential reward from retained growth and published business rate income forecasts for 2014/15 suggest there are indeed a number of authorities in this position.

Aspects of economic and housing growth are outside of local authority control, which also makes relying on these strategies to balance the budget difficult. In particular, they are not effective short term strategies, as the planning process and time taken to build new properties means that unless new housing schemes were started earlier, councils will not see the benefit next year. Indeed, many councils have chosen to use the new homes bonus to fund specific projects rather than as part of their recurring annual budgets because of the uncertainty of how this income stream will develop in the future.

4 For an example of this happening in a council, please see this story about flooding in Canterbury: <http://tinyurl.com/pnerck3>

5 See 'The story so far: business rate retention': <http://tinyurl.com/nnuwoox>

4. Reviewing how the assets can be used more effectively (11%)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

One of the continued suggestions from central to local government has been to review the assets owned by councils with a view of developing strategies to maximise income or minimise costs. For example, the Government announced that, subject to conditions and limits, receipts of sales of capital assets will be allowed to be used to fund the one-off costs of service transformation.

Councils have been reviewing their use of assets as a result to see if any financial gains can be reaped. However, only 11 per cent of our respondents mentioning this strategy indicates that the benefits in many cases may be marginal.

5. Increasing council tax (11%)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Seen by many councils as a last resort, increasing council tax is an option that is always available for local authorities, although this is subject to a referendum above a limit set by central government. The scope for using council tax increases has also been limited by the Government's council tax freeze policy of recent years. For 2014/15, the referendum limit was set at 2 per cent, which was a very late announcement following hints of a potential departure from the 2 per cent limit the Government indicated in June 2013. Therefore, even if councils decide to increase council tax, the limits mean that it is not enough to offset the cuts in full or even – in many cases – significantly.

Overall, this is a small percentage in comparison to about 40 per cent of councils that have decided to increase council tax in 2014/15.⁶ This might be because of the timing of the survey which meant that many councils may not yet have begun discussions about council tax in 2015/16. It may also suggest that many authorities would rather not increase council tax if it can be avoided; it is not necessarily something they plan for.

Given the freeform style of the survey, another explanation could be that councils have thought that the impact of an increase in council tax on their total funding would be too small to make much of a difference, especially given the referendum limits.

⁶ Department for Communities and Local Government statistics. <http://tinyurl.com/ouob87k>

Here is a selection of councils' comments on the top three strategies:

Maximising income from investment, fees and charges

"We have focused on increasing income in a number of services especially our garden waste collection and leisure centres. We have focused on the non-statutory services but not areas such as car parking, where we offer the first hour free and then only charge a minimal sum to ensure the maintenance of the car park, as we recognise the part they play in maintaining the viability of our market towns."

"We are for example actively pursuing options to develop business units to help with economic growth and also assist our own income."

Using reserves to support the revenue budget

"We will very likely need to use reserves to balance the 2015/16 revenue budget although this is not formally in our plans yet. So, far from sitting on reserves unnecessarily, we have been prudent in planning for a highly uncertain future, in no small part caused by the volatility of the local government settlement from government. This is just as well, since we are highly likely to need to use these in 2015/16 and we would have been dangerously close (or below) our auditor's recommended level of reserves."

"Reserves will be used to balance the budget in 2015/16, and make a further contribution to the budget in 2016/17, by which time we will be down to a minimum working reserves balance."

Increasing the local tax base and new homes bonus

"We have also commissioned a review of our empty properties within the district to maximise the new homes bonus that we receive."

"We are working with the local enterprise partnership to enable growth in local businesses, over and above the assumptions used in the strategy, and thereby increase yield from retained business rates and the pool."

5. Use of reserves

The Government has increasingly paid attention to the levels of financial reserves local authorities hold, calling them ‘the Fort Knox’⁷ and ‘secret stockpiles’,⁸ in order to push councils to release the cash that they have accumulated. The truth is that councils report the level of reserves they hold each year in their financial accounts and statistical reports, both of which are available for the public to access. Councils generally hold reserves for a number of reasons:

- to use them at a later date to support investment projects, including those designed to save money
- to temporarily roll over unused portions of grants that can legally be used at a later date
- to insure themselves against major unexpected events (such as flooding)
- to guard against general risk (i.e. saving up for unexpected events)
- to smooth the impact of cuts
- to guard against emergent specific risks, such as business rate appeals, council tax support funding cuts and welfare reform. These risks are predicted to continue increasing.

Temporary reserves are also routinely created to meet expenditure committed but not yet paid for.

In our survey, we asked councils about their plans for the reserves they hold. The vast majority of respondent councils are planning to use reserves over the next two years, and Figure 4 illustrates the relative popularity of various reserves strategies. The overall conclusion is that prevailing reserve strategies are to buy time while implementing efficiency savings, to guard against various risks and to invest in projects intended to save or earn money.

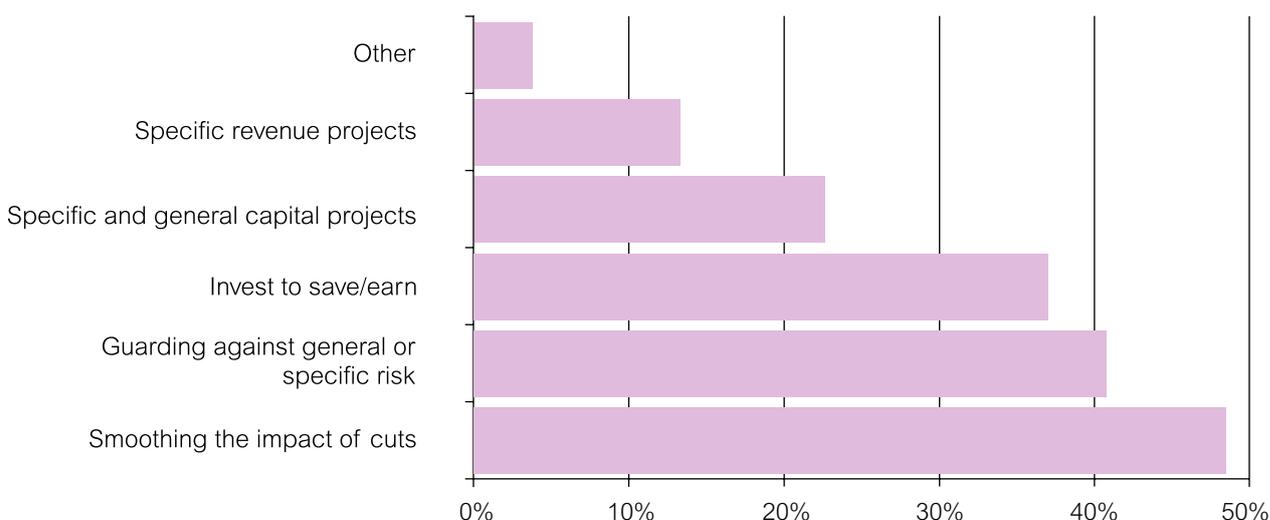
The ‘other’ category encompasses those councils which have not said that they are planning to use any reserves in the next two years. This shows that for most local authorities, ‘stockpiling’ reserves was never the reality, or even an option.

As with the previous analysis, it is worth noting that all councils will have gone through, or are going through, a process of evaluating each of these options and the effectiveness they could bring in their local areas. Just because a reserves strategy is less ‘popular’ does not mean that it was not considered on its own merits by respondent councils. Any council may have chosen a combination of these options.

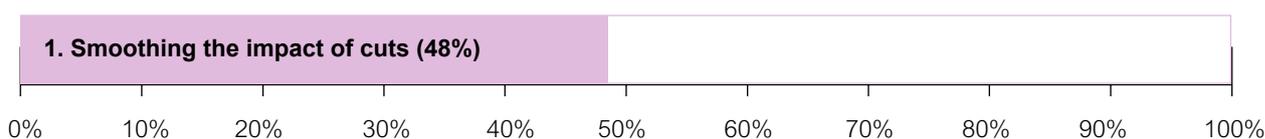
7 ‘Eric Pickles attacks councils for “stashing away billions”’, Telegraph: <http://tinyurl.com/ax3avyc>

8 ‘Councils amassing secret stockpiles of taxpayer money says Local Government Secretary’, DCLG: <http://tinyurl.com/kcq52k>

Figure 4. The most prevalent uses of reserves by councils to tackle the 2015/16 challenge

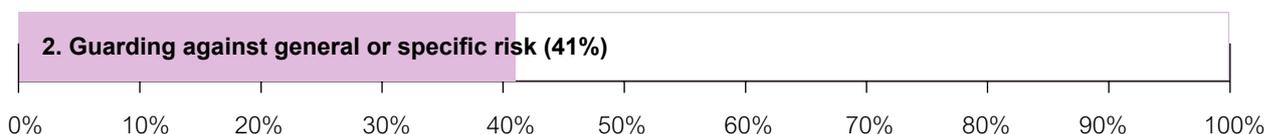


The rest of this section will briefly address the top three responses.



Almost half of all respondent local authorities felt that the next two years, 2015/16 in particular, will see them relying on reserves to buy time. Local authorities might believe that the pain of the cuts should be spread over a number years; others might think that the ambitious savings plans will need more time to provide all the expected results. This is especially the case with preventative and early intervention strategies, which are costly to start undertaking, and the savings from a reduced reliance on care services are unlocked only several years later.

Reserves accumulated over the past several years, either through deliberate strategy or early delivery of ambitious efficiency savings, are likely to be used in 2015/16. Local government has set some money aside in the past and this now helps it buy time to deal with this unprecedented challenge.



Regardless of the financial challenges, more than two out of every five councils explicitly mention that part of their reserves will continue to be held to guard against general or specific risks. The latter include such potential costs as equal pay claims, business rate appeals (the success of which can negatively impact councils from April 2013) and the impact of social care reform. Another example could be the prolonged uncertainty over the council tax referendum threshold which affected the financial planning of many councils adversely.

Councils also tend to insure against other unexpected risks through a small general risk reserve – this feature of council finance is expected to continue unchanged. Use of reserves to guard against uncertainty and risk is also supported by the independent Chartered Institute of Public Finance and Accounting⁹.



In their responses, more than a third of councils mentioned that part of their reserves will be used to fund projects that will either save them money through smarter service delivery or earn them money through income arising from investment. The range of initiatives is very wide, ranging from upgrading the IT systems to owning a property and business portfolio in the local area, including the high street, with rental and other income supplementing council budgets.

There is only a 10 per cent difference between the most and the third most popular reserve strategies. 'Invest to save or earn' being part of the top answers reflects the shifting focus to the commercialisation of services.

Here is a selection of councils' comments on their reserve strategies:

"Programmes of change bring their own delivery risks, so we are planning to use reserves in 2014/15 in order to allow time for those programmes to gain traction. They will deliver their full, sustainable benefits in 2015/16."

"With the outlook for 2016/17 and beyond being very tough, and the scale and risk of achieving cost reduction being high, the council's policy on reserves is clear: to invest to save; to smooth the curve of cost reduction in the light of timescales needed to drive costs out; or to protect urgent priority spending on a non-recurrent basis."

"Our reserves have steadily increased over the last few years, taking advantage of in-year savings against the budget and also some windfall income such as VAT refunds. These have been maintained as we have known that addressing financial pressures will require some up-front costs."

"The council's policy on reserves makes it clear that reserves should not be significantly reduced until it is clear that the council has a balanced budget for the foreseeable future."

"A year ago we decided that with a view to the long term it is desirable for local authorities to become as financially independent as possible the council would invest significant reserves into property development. Firstly by developing on land it already owns, but also investing with a partner in strategic developments such as the Research Park."

"Our current financial planning allows for the use of reserves primarily to facilitate the changes required through the principle of 'invest to save'. Our current plans do not allow for the new homes bonus within the base budget and any reserve created from this source of funding is envisaged to be used to support the delivery of the councils' priorities."

⁹ Please see this press release from CIPFA: <http://tinyurl.com/p8623tj>

Conclusions

Responses to our survey provided us with a snapshot of how local government is planning to tackle the financial challenges ahead, especially those over the next two financial years.

Our conclusions are:

1. Under the current system some councils are running out of means to tackle financial pressures through increasingly efficient ways of delivering services. Sixty per cent of authorities say that they will not be able to cover their budget gap with future efficiencies alone in 2015/16, while a further 21 per cent identify this as a possibility. Only two out of every 10 councils felt that they can deal with the cuts over the life of this Parliament while avoiding cuts to services.
2. Half of all respondent councils said that they are planning to use some of their reserves to smooth the impact of funding reductions and buy themselves time. This suggests that a significant number of authorities is spreading the challenge until after 2015/16 once reserves have run down, even if there are no further cuts in government funding.
3. Two out of five councils are looking to use reserves to support investment in cost saving or income generating activities over the next two years. All authorities report the level of reserves they hold each year, as part of their financial accounts and national statistical releases. This dispels the perpetuated myth that councils are needlessly sitting on a 'secret stockpile' or 'Fort Knox' of cash.
4. Councils are looking into the commercialisation of activities by planning to adjust their charging and fee structures to recover costs incurred while providing discretionary services, such as leisure centres. Maximising investment income is seen as a key priority in tackling the 2015/16 funding challenge. There are anecdotes of councils that are relying on a portfolio of real estate to provide them with continuous rental income.

The Government must recognise that local government is fast approaching a state where, under the current circumstances, continued efficiency savings alone are not enough to tackle funding cuts for some councils.

The so called 'secret stockpile' of reserves does not provide a sustainable solution, only a temporary respite against the rising pressure. Councils can afford this because they prepared for the challenges ahead.

Local authorities see a way ahead and many are already working closely together and with other local partners to reform and rewire local services by managing demand and agreeing joint objectives. This includes, for example, increasing integration of health and social care services, co-location, Troubled Families partnerships and other projects.

This work takes time and some authorities do not have the luxury of being able to wait because money is running out. Government can help by loosening strings on local government and local partners. It should enable and encourage close working and sharing of resources between councils and agencies as well as provide a supportive environment for further innovation.



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