

AnyCouncil and the Autumn Statement



October 2013

Contents

1. Summary	3
2. Funding for AnyCouncil from 2010/11 to 2015/16	4
3. The pattern of service cuts so far	6
4. Encouraging local growth	9
5. AnyCouncil's approach to the next two years	10
6. How the measure's in the LGA's Autumn Statement submission can help AnyCouncil and its residents	12
7. Beyond 2015/16: Rewiring Public Services	14

1. Summary

This paper describes the impact of the Spending Round and the Local Government Association's (LGA) consequent submission on a typical single tier authority. AnyCouncil is typical in three respects: its level of funding cuts, the mix of services it provides, and the level of growth in its local economy. 2013/14 is AnyCouncil's third successive year of funding cuts, but there are at least another two years to go and strong indications there will be more after that. AnyCouncil has already made significant reductions in its budgets, particularly in the areas of planning and economic development.

So far it has sought to protect most frontline services, partly through the controlled use of reserves, which it prudently contributed to in previous years to safeguard against future risk. These reserves are now depleted. The picture over the next two years is stark. There are a number of options open to AnyCouncil, none of which are painfree. It can cut spending on frontline services to the most vulnerable. It can reduce the generosity of its council tax support scheme to the less well off. It can increase council tax, but is constrained by the referendum threshold. It can stop investment in services which directly contribute to local growth. In reality none of these strategies alone will be sufficient to close the budget gap, and AnyCouncil must pick elements from each. Most services will suffer, and it's likely that some will have to be cut altogether.

The measures in the LGA's Autumn Statement submission are realistic and achievable requests that will alleviate some of the immediate pressures facing AnyCouncil by giving some extra flexibility. But AnyCouncil's focus at the moment is on surviving as opposed to thriving. The present pattern of cuts is unsustainable. To continue to contribute to deficit reduction a more radical solution is required, along the lines of that contained in the LGA's 'Rewiring Public Services'¹ campaign.

¹ *Rewiring public services; Rejuvenating democracy*, Local Government Association, July 2013 / www.local.gov.uk/campaigns

2. Funding for AnyCouncil from 2010/11 to 2015/16

The 2010 Spending Review made it clear that there would be four years of deep and sustained cuts to council budgets. The level of the cut to grant funding was increased in the Autumn Statement 2012 and the 2013 Budget to around 33 per cent in real terms by the end of 2014/15. The 2013 Spending Round added another year to this timeframe with the announcement of a further real-terms cut of 10 per cent to government funding for local councils. The announcement failed to take into account holdbacks and the recycling of existing funding; in practice the 2015/16 cut will be closer to 15 per cent for most services. This is a 43 per cent real-terms cut to funding over the life of this Parliament.

Government grant funding forms a significant proportion of total funding for all councils, but it is not the only one. The impact of the grant cuts on an individual council's budgets will depend largely on the proportion of its income which is derived from council tax. Councils with a higher council tax base are more resilient to reductions in grant funding, but even council tax income has been eroding in real terms due to below-inflation increases. For AnyCouncil, the effect of the cuts on total cash funding is illustrated in the chart and tables below:

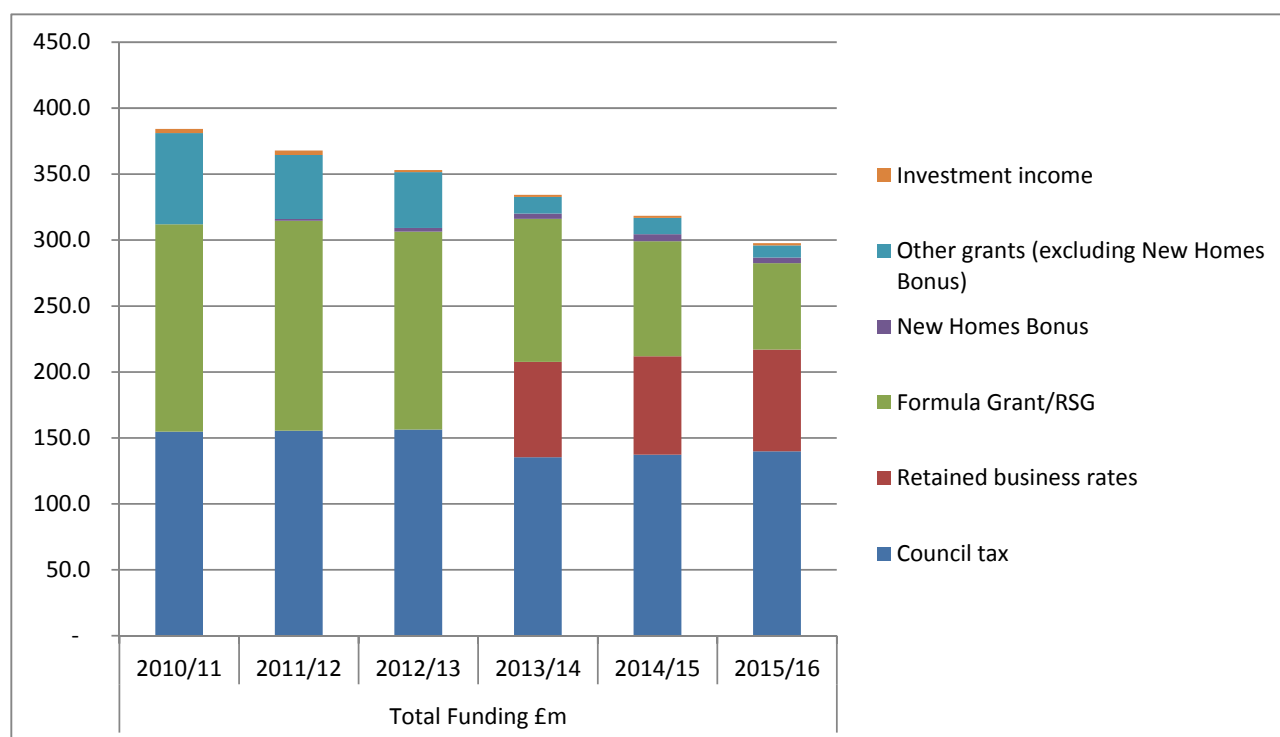


Chart 1 – Total funding for AnyCouncil²

² Excludes the one-off use of reserves, ringfenced schools and public health funding, and the transfer from the NHS in 2015/16 for joint health and social care provision.

Table 1 – AnyCouncil total funding	Total Funding ³ £m					
	2010/11	2011/12	2012/13	2013/14 ⁴	2014/15	2015/16
Council tax	154.8	155.5	156.4	135.4	137.3	139.8
Retained business rates				72.2	74.6	77.2
Formula Grant/RSG	157.1	159.2	150.1	108.6	87.3	65.4
New Homes Bonus	-	1.3	2.8	4.0	5.3	4.3
Other grants (excluding New Homes Bonus)	69.2	48.6	42.3	12.5	12.3	9.2
Investment income	3.2	3.3	1.6	1.6	1.6	1.7
Total Funding	384.3	367.8	353.1	334.3	318.4	297.6

Table 2 – AnyCouncil reductions in funding	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Total Funding £m	384.3	367.8	353.1	334.3	318.4	297.6
Reduction on previous year £m		16.5	14.7	18.8	15.9	20.8
Reduction on previous year %		4%	4%	5%	5%	7%
Cumulative Reduction £m		16.5	31.2	50.0	65.9	86.7
Cumulative Reduction %		4%	8%	13%	17%	23%

So by the time of the 2013 Autumn Statement, AnyCouncil will be just over halfway through delivering the five-year period of cuts across the life of this parliament. In cash terms the total amount of funding available for AnyCouncil will reduce from £384 million in 2010/11 to £298 million in 2015/16. This is a total cut of 23 per cent, or 34 per cent in real terms.

The total reduction to AnyCouncil's funding from 2010/11 to 2012/13 is £31million. The reduction in AnyCouncil's funding in the remaining three years to 2015/16, allowing for modest increases in retained business rates and council tax, is estimated at £56 million.

AnyCouncil's total funding has fallen by £31 million in two years. In the three years to 2015/16, funding will fall by a further £56 million. At just halfway through the five-year period of austerity there are significant budget cuts still to be made.⁵

⁴ 2013/14 saw a number of changes to the structure of local government funding: council tax income is reduced as a result of the change to localised council tax support schemes, the old Formula Grant was replaced by the retained business rates system, and several grants previously outside formula funding were transferred in. As a result most of the individual funding lines mean something very different in the first three years than they do in the last three.

⁵ This paper focuses on General Fund funding and expenditure, but at the same time there are significant pressures on AnyCouncil's Housing Revenue Account. Changes to rental policy, coupled with the right to buy and preparation for increased rental arrears are reducing AnyCouncil's financial capacity within the self-financing business plan.

3. The pattern of service cuts so far

AnyCouncil has already had to make tough choices about which services to cut. Like most councils there are statutory and practical constraints on which services can be cut.

Frontline care services for vulnerable adults and children have seen a small growth in spending driven by an ageing population with more complex care needs and pressures on child safeguarding that have led to a doubling of the number of looked-after children since 2006.

Concessionary fares cannot be cut – the entitlement is set nationally. When the funding for the national concessionary fares scheme was rolled into Formula Grant in 2010/11 concessionary fares payments cost AnyCouncil £5.0 million; in 2013/14 they will cost £5.5 million. In the same period funding for concessionary fares has been cut and will be cut further – to around £3.1 million by 2015/16.

Waste management spending has grown by 11 per cent from 2010/11 to 2012/13. This is a result of housing growth and cost pressures. AnyCouncil has a statutory obligation to fulfil this function and by 2010/11 had already made significant savings, so finding further efficiencies has been extremely difficult.

AnyCouncil had a 2012/13 net expenditure budget, excluding schools, of £366 million⁶. But the spending reductions have to be found from those budgets over which it has control. If we exclude the services above, this leaves a budget of just £188 million, from which £60million must be taken in three years. Even this figure is likely to overstate the controllable budget as most services have a statutory element.

The chart below illustrates that the largest percentage reductions to date have been in budgets for regulatory services and planning and economic development, while social care budgets remain at more or less the pre-2010 Spending Review level.⁷

⁶ Funded from £353 million of core funding in table 1 and £13 million from reserves.

⁷ Reductions are shown in cash terms. In real terms reduction in planning and development are even greater, and social care services have seen a small real-terms cut.

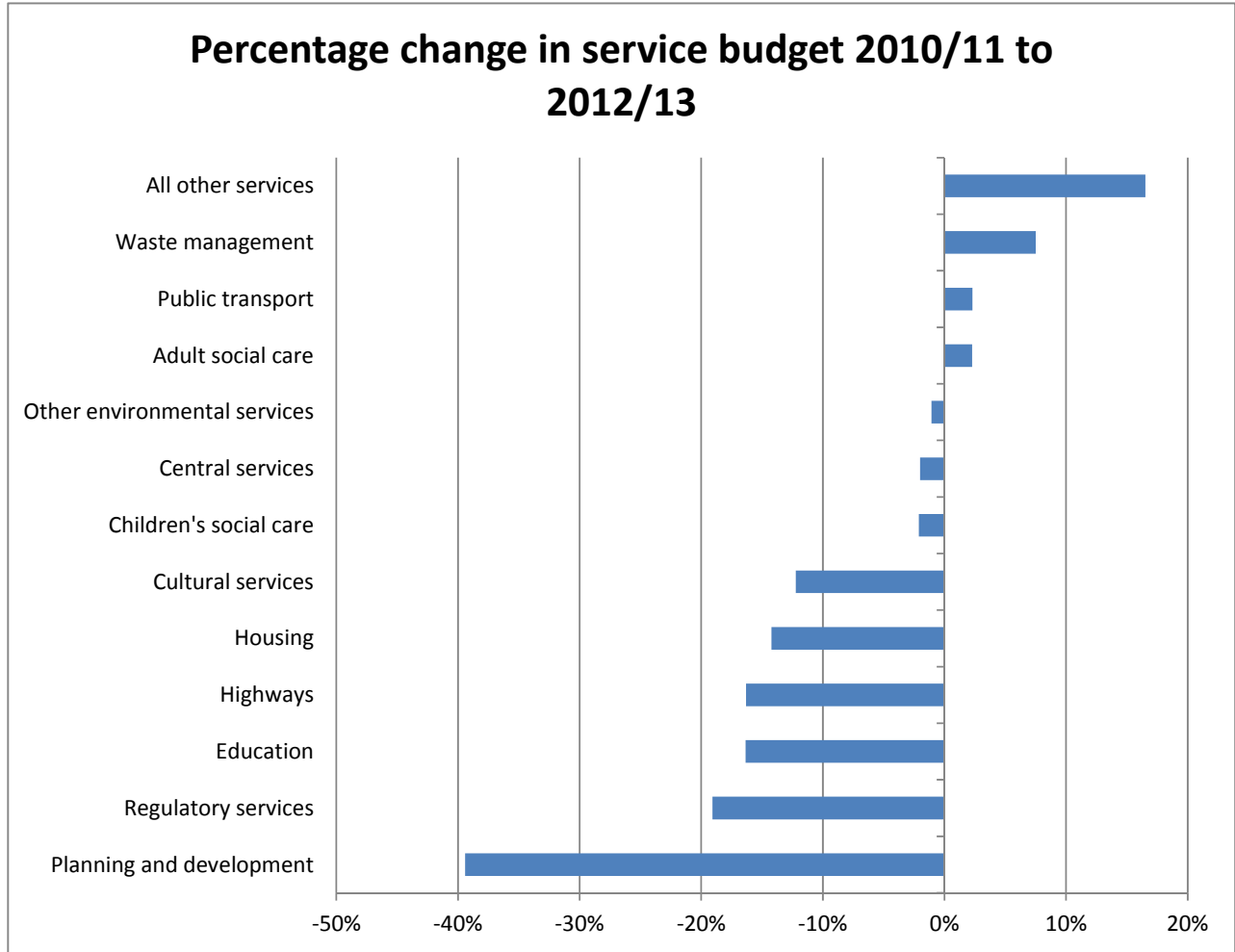


Chart 2 – AnyCouncil change in service budgets 2010/11 to 2012/13

Source: DCLG revenue outturn statistics 2010/11 and revenue budget statistics 2012/13

Note: “Central services” includes demand-led statutory services such as registrar services and electoral services, the costs of which are largely outside councils’ control. “All other services” includes the costs of capital financing and the increase in capital investment is the main reason for the increase in this line.

Planning, regulatory, education, highways and housing services have borne the brunt of the spending reductions in AnyCouncil so far. These are the council services that have the most direct link and impact on local economic growth. Local residents have been concerned about cuts to universal services.

Cost savings in other services such as social care have been recycled into paying for extra service demands.

The direct effects of the cuts on AnyCouncil's residents include:

- Increasing charges for social services including day centres, day care meals and monitoring technologies. Eligibility criteria have been set at the substantial/critical threshold.
- Efficiencies in education⁸ and children's services totalling £4.8 million to both make savings and meet new fostering costs of £1.7 million and placement costs of £1.2 million. The number of looked after children has doubled to 650 since 2006. In detail:
 - an early intervention strategy saving £1.3 million through refocusing Family Support and children's centres
 - directly provided services to pupils (for example, attendance and pupil support, Pupil Referral Units, early years and child care) and maximising the use of Dedicated Schools Grant funding for these services
 - a revised accommodation strategy for looked after children and better commissioning and management of placements
 - jointly commissioning and funding Connexions services with schools to deliver careers advice saving £0.3 million.
- Reduced support for cultural and sporting events and festivals such as community cohesion events and local food and drink festivals.
- Operational changes to waste services to maximise the productivity of both staff and vehicles, saving £0.25 million.
- The use of volunteers to maintain public rights of way (£0.2 million).
- A 35 per cent reduction in planning staff made possible in part through a 25 per cent fall in planning applications.

⁸ Local councils do not control the budgets for schools. Efficiencies in education need to come from the education support and ancillary services local authorities provide.

4. Encouraging local growth

Promoting growth in the local economy is important for councils – through investment in infrastructure projects, supporting new developments, major inward investment schemes, support to small businesses and employment support. But when core funding is being cut, councils have to look at new and innovative ways to fund economic investment.

Since the 2010 Spending Review, AnyCouncil's contributions to growth include:

- successfully bidding for Regional Growth Fund funding to finance an Enterprise Growth programme, and other initiatives, to generate around 3,700 jobs, create over 500 business and attract a further 50 to its area by 2019/20
- a joint venture with an entertainment company to co-invest in reinventing the tourist offer in council-owned leisure assets, which is set to bring more visitors and an extra £100 million in revenue across the area
- the prioritisation of capital investment financed by new prudential borrowing⁹, capital grants and capital receipts, to invest in the local economy, infrastructure, and housing.

But AnyCouncil is promoting growth with its hands tied behind its back. The reduction in AnyCouncil's budget and employment has had a negative impact on the local economy and that of neighbouring councils into which its economic activity spreads. AnyCouncil has reduced its own headcount by just over 1,000 between 2010/11 and 2013/14. These lost jobs represent a significant loss to the local economy.

The examples above are mainly funded through one-off funding streams. For successful sustained investment at a time when frontline services are at risk, AnyCouncil needs more certainty over its future revenue funding.

AnyCouncil was hopeful that the Heseltine growth fund would unlock potential to drive economic recovery. But the amount available is only a fraction of what Lord Heseltine recommended¹⁰, and will do little to alleviate the stagnant economy in AnyCouncil.

In addition, much of the money for the growth fund is being taken directly from councils' budgets where it had been used to good effect in promoting growth. AnyCouncil has used its New Homes Bonus receipts to invest in local infrastructure, having to date built over 100 new affordable homes. Over a third of this important funding stream will be removed, beginning in 2015/16, to fund the local growth pot.

⁹ New prudential borrowing of £36 million in 2013/14 reducing to £15 million by 2015/16.

¹⁰ Lord Heseltine's review *No stone unturned: in pursuit of growth*, 2012

5. AnyCouncil's approach in the next two years

AnyCouncil has so far made the decision to protect services to the most vulnerable and this inevitably has focused cuts on those service areas that promote growth. This approach is not sustainable in the period ahead:

- most of these “growth” services have already given up everything they can in terms of savings; with services such as Planning and Development now operating at barely half of their pre-SR2010 funding levels, the scope for further cuts is limited
- even in the unrealistic scenario under which the budgets of Regulatory Services, Planning and Development and Central Services are reduced to zero, the total cash saving to AnyCouncil would be £32 million, which would cover just over half of the total savings requirement in the next three years.

AnyCouncil is approaching a tipping point. The remaining options are painful: AnyCouncil can continue to cut the budgets that contribute to growth, or it can cut frontline service provision to the most vulnerable members of society.

Unless more is done to create new jobs and homes, it is likely that the cumulative impacts of welfare reform will mean more people turning to the council for help with making ends meet, placing further pressure on AnyCouncil's already strained finances. To mitigate this risk, AnyCouncil would like to play a key role in commissioning the support services for Universal Credit, working closely with its local DWP and voluntary sector partners, as well as more influence over employment schemes and more freedom to borrow to build new houses.

The situation is exacerbated by a lack of certainty. Over recent years the Government has provided a series of one-year financial settlements, with planning figures frequently reduced in Budget and Autumn Statement announcements. This has forced AnyCouncil constantly to change its financial planning assumptions and AnyCouncil's leaders have had to take care not to overcommit the council financially, previously keeping larger than normal amounts of reserves to hedge against risk.

The Government's change of policy on the New Homes Bonus, intended as an incentive to councils to stimulate housing growth, is another example of the way government can make austerity harder for councils to manage than it needs to be.

AnyCouncil has to balance between a combination of the following:

- Using already diminished reserves to temporarily plug gaps in the budget. AnyCouncil holds sufficient reserve balances to cover the shortfall for only one year, but this is a one-off measure and unallocated reserve levels are running dangerously low. Reserves are held against specific financial risks and the council would significantly increase its vulnerability and risk profile if it were to use up its reserves in this way.

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- Holding a referendum on council tax to increase it by more than the 2 per cent limit set by the Government. But the cost of holding a referendum in AnyCouncil is estimated at £0.5 million, and this cost must be met by the council whatever the outcome. So AnyCouncil would have to find a way to cover the costs of the referendum itself, which might be to raise council tax by an even greater amount.
 - Withdrawing completely from the provision of some services. This could include, for example, stopping provision of cultural services for a saving of £25 million. AnyCouncil has 26 libraries and seven museums and galleries and stages a number of cultural events each year, all of which would disappear if the council withdrew from the provision of cultural services, leaving the council vulnerable to legal challenge.
 - Changing the local Council Tax Support scheme: as a result of the cut in funding most working-age claimants in AnyCouncil must now pay at least 29 per cent of their total council tax liability and AnyCouncil is considering increasing this to 40 per cent. Currently claimants who had received full council tax benefit are faced with a new liability of £7.80 per week; the change under consideration would increase that by a further £3 per week. The total weekly income of these claimants can be as little as £56.80¹¹. Collection rates in AnyCouncil have been better than expected but there is evidence that this is largely due to increased use of payday loan companies and some AnyCouncil tenants are getting drawn into a cycle of debt. Withdrawing the generosity of the scheme would be likely to exacerbate this placing further strain on the council's services as well as other public and voluntary and community sector services.

AnyCouncil is positive about the Government's announcement on health and social care integration in the 2013 Spending Round. It does not yet know its allocation but it expects to have about £8 million in 2015/16 to spend on joint NHS and social care priorities.

It has been working with the local clinical commissioning groups, that formed in 2013, and together a plan is being drawn up to look at how its share of the Integration Transformation Fund will be used to best effect. Although there is a clear focus on reducing pressures on the acute sector there is also an expectation that the work will improve the sharing of information, staff, money and risk, with accrued savings reinvested in the community to reduce emergency admissions, length of hospital stay and delayed transfers of care.

¹¹ Single person under 25 on Income Support

6. How the measures in the LGA's Autumn Statement submission can help AnyCouncil and its residents

Measure	Description	Benefit to AnyCouncil
No further changes to 2014/15 and 2015/16 settlements	Over the last 18 months, the local government spending total has been reopened again and again. AnyCouncil has found it impossible to plan ahead with any certainty.	Enables long-term strategic planning. Helps restore trust between AnyCouncil and central government. May enable AnyCouncil to release more of its reserves without undue risk.
Compensation for small business rate relief	The 2012 Autumn Statement announced that small business rates relief would be extended for a further 12 months, but no announcement was made on whether councils would be compensated for this.	It is estimated that if AnyCouncil had to fund the extension of relief from its own resources, the cost would be approximately £2 million, and this would have to be cut from service budgets.
Removal of council tax restrictions	AnyCouncil has worked hard to keep council tax low, partly by making changes to discretionary discounts and premiums. But its influence over the system of discounts is limited by central restrictions.	There would be some scope for AnyCouncil to increase council tax revenue if it were given some freedom over discounts. But just as important would be the ability to ease the chronic housing shortage by disincentivising underoccupation – it is estimated that there are more than 3,000 empty homes and 2,000 underoccupied homes in AnyCouncil while 17,000 tenants are on the council's housing waiting list. The ability to increase council tax at less than the rate of inflation without the expense of a referendum would give AnyCouncil another option.

Removal of restrictions on use of capital receipts	AnyCouncil holds several assets for sale but cannot usefully invest the proceeds of these under the current regulations. AnyCouncil would like to invest in several infrastructure projects, including the expansion of parks and children's adventure playgrounds, but cannot access the funds to do so.	AnyCouncil currently holds £20 million of assets for sale on its balance sheet which could be reinvested were the current restrictions lifted.
Further integration and pooled budgets in social care	Social care services form the single largest area of spend, with over 40 per cent of AnyCouncil's total net expenditure. The announcement in the 2013 Spending Round of the adult social care fund to drive integration is a welcome step forward.	AnyCouncil would like to see the Government build on that momentum by announcing as early as possible councils' allocations from the Integrated Transformation Fund and use it as a springboard to more significant budget pooling. This would provide more stability in delivering services in an area facing both the greatest pressures and targeted at the most vulnerable members of society.
Removal of schools ringfence and pooling of children's budgets	Schools in AnyCouncil want to work more closely with the LEA and other partners but cannot due to the ringfenced nature of their budgets.	Further integration would allow AnyCouncil to concentrate on early intervention and safeguarding work, reducing the overall cost to the state.
Removal of the HRA borrowing cap	Even after accounting for the many empty and underused properties across AnyCouncil there is a shortage of housing stock, and AnyCouncil cannot finance the building of more homes.	It is estimated that AnyCouncil could build 400 new homes over and above current plans if the borrowing cap were removed. This would provide jobs and have a knock-on effect on local employment and growth.

None of these measures would solve the problem of having to find savings to meet the burden of austerity but they would give significant flexibility to the council to manage the reduction in funding while continuing to meet local needs and delivering the local economy. The combination of funding cuts and a straitjacket of controls leaves AnyCouncil with few options.

7. Beyond 2015/16: Rewiring Public Services

It is clear that AnyCouncil is reaching a tipping point. AnyCouncil is currently undertaking extensive consultation with its residents on the choice between frontline services for those most in need and services to promote growth more widely and on whether to pay more council tax.

The measures in the LGA's Autumn Statement submission can go some way towards alleviating some of the immediate pressures. But the current model of local government finance is unsustainable. This paper has focused on the period to 2015/16, but our modelling and analysis suggests that funding for local services will continue to reduce for some years beyond this, at the same time as demographic pressures place more and more strain on council finances. AnyCouncil is starting to consider with its residents, local businesses and public sector partners a model for a new, reinvigorated, rewired local democracy.

It is looking at ways to dramatically reform and integrate local services and ways to drive local growth and future business rate income. It would like to work towards greater financial independence from government where funding is stable, certain and grows to accommodate cost pressures. This is what is needed to enable AnyCouncil to invest with confidence in the long-term growth of its economy and to shift spend on services from reacting to problems to preventing them and creating opportunities in their place.

The alternative is a council that based on current forecasts will in the future be barely able to fulfil even its most basic statutory requirements. AnyCouncil is determined not just to support the most vulnerable in times of need, but to play its part in driving growth locally and nationally. A fundamental rewiring is required if AnyCouncil is to be able to do so.

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